

Topic: India Retail Industry-Its Growth, Challenges and Opportunity

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Abstract

The Indian retail industry is estimated to be worth around US\$ 500 billion currently. India offers immense scope of growth and opportunities in this arena. This paper provides detailed information about the growth of retailing industry in India. It examines the growing awareness and brand consciousness among people across different socio-economic classes in India and how the urban and semi-urban retail markets are witnessing significant growth. It explores the role of the Government of India in the industry is growth and the need for further reforms. In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. The paper includes growth of retail sector in India, with opportunities and challenges. This paper concludes with the likely impact of the entry of global players into the Indian retailing industry. It also highlights the challenges faced by the industry in near future.

KEYWORDS: Retail Sector, Challenges, Opportunities, Retail Formats.

1.1 INTRODUCTION

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.

The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retailing has entered into the Retail market in India as is observed in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof.

A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector are going to be the key factors in the growth of the organized Retail sector in India. The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the India Retail Industry.

1.2 MEANING:

Retailing is a distribution channel function, where one organisation buys products from supplying firms or manufactures products themselves, and then sells these directly to consumers.

In majority of retail situations, the organisation, from whom a consumer buys, is a reseller of products obtained from others, and not the product manufacturer. However, some manufacturers do operate their own retail outlets in a corporate channel arrangement.

Retailers offer many benefits to suppliers and customers as resellers. Consumers, for instance, are able to purchase small quantities of an assortment of products at a reasonably affordable price. Similarly, suppliers get an opportunity to reach their target market, build product demand through retail promotions, and provide consumer feedback to the product marketer.

1.3 REVIEW :THE INDIAN RETAIL SCENE

India is the country having the most unorganized retail market. Traditionally it is a family's livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99% retailers function in less than 500 square feet of shopping space. Global retail consultants KSA Technopak have estimated that organized retailing in India is expected to touch Rs 35,000 crore in the year 2005-06. The Indian retail sector is estimated at around Rs 900,000 crore, of which the organized sector accounts for a mere 2 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer.

Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention to the brand building process. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself. In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy.

1.4 GROWTH OF RETAIL SECTOR IN INDIA

Retail and real estate are the two booming sectors of India in the present times. And if industry experts are to be believed, the prospects of both the sectors are mutually dependent on each other. Retail, one of India's largest industries, has presently emerged as one of the most dynamic and fast paced industries of our times with several players entering the market. Accounting for over 10 per cent of the country's GDP and around eight per cent of the employment retailing in India is gradually inching its way toward becoming the next boom industry.

As the contemporary retail sector in India is reflected in sprawling shopping centers, multiplex- malls and huge complexes offer shopping, entertainment and food all

under one roof, the concept of shopping has altered in terms of format and consumer buying behaviour, ushering in a revolution in shopping in India. This has also contributed to large-scale investments in the real estate sector with major national and global players investing in developing the infrastructure and construction of the retailing business. The trends that are driving the growth of the retail sector in India are

- Low share of organized retailing
- Falling real estate prices
- Increase in disposable income and customer aspiration
- Increase in expenditure for luxury items

1.5 INDUSTRY EVOLUTION

- The emergence of the neighbourhood Kirana stores catering to the convenience of the Consumers.
- Era of government support for rural retail: Indigenous franchise model of store chains run by Khadi & Village Industries Commission.
- 1980s experienced slow change as India began to open up economy.
- Textiles sector with companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim first saw the emergence of retail chains.
- Later Titan successfully created an organized retailing concept and established a series of showrooms for its premium watches.
- The latter half of the 1990s saw a fresh wave of entrants with a shift from Manufactures to Pure Retailers.
- For e.g. Food World, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword and Fountainhead in books.
- Post 1995 onwards saw an emergence of shopping centers.
- Mainly in urban areas, with facilities like car parking.
- Targeted to provide a complete destination experience for all segments of society .
- Emergence of hyper and super markets trying to provide customer with 3 V- Value, Variety and Volume.
- Expanding target consumer segment: The Sachet revolution - example of reaching to the bottom of the pyramid.
- At year end of 2000 the size of the Indian organized retail industry is estimated at Rs.13,000 crore.

1.5 RETAILING FORMAT IN INDIA

Malls:

The largest form of organized retailing today. Located mainly in metro cities, in proximity to urban outskirts. Ranges from 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Pyramid, and Pantaloon.

Specialty Stores:

Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

Discount Stores:

As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non-perishable goods.

Department Stores:

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.

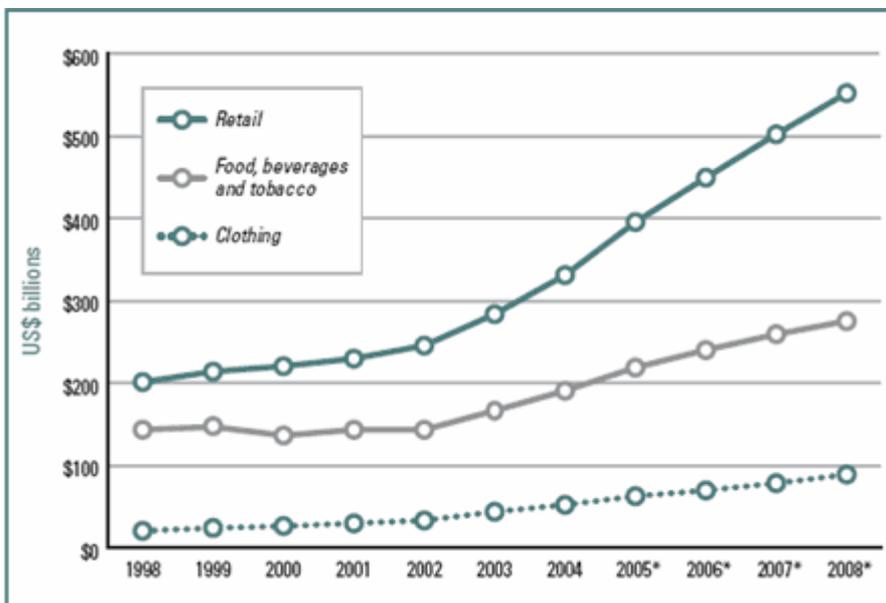
Convenience Stores:

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

1.6 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:
 - o Favourable demographics
 - o Growth in income
 - o Increasing population of women
 - o Raising aspirations: Value added goods sales
- Food and apparel retailing key drivers of growth
- Organized retailing in India has been largely an urban
- Phenomenon with affluent classes and growing number of double-income households.
- More successful in cities in the south and west of India. Reasons range from differences in consumer buying behaviour to cost of real estate and taxation laws.



Sources: Economist Intelligence Unit and A.T. Kearney analysis *Data for 2005-2008 is based on estimates

1.7 CHALLENGES & OPPORTUNITIES

A 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 labor productivity in United States in 2010. India's labor productivity in

food retailing is about 5% compared to Brazil's 14%; while India's labor productivity in non-food retailing is about 8% compared to Poland's 25%.

Total retail employment in India, both organized and unorganized, account for about 6% of Indian labor work force currently - most of which is unorganized. 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 labor and management for higher retail productivity is expected to be a challenge.

To become a truly flourishing industry, retailing in India needs to cross the following hurdles:

- * Automatic approval is not allowed for foreign investment in retail.
- * Regulations restricting real estate purchases, and cumbersome local laws.
- * Taxation, which favours small retail businesses.
- * Absence of developed supply chain and integrated IT management.
- * Lack of trained work force.
- * Low skill level for retailing management.
- * Lack of Retailing Courses and study options
- * Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.

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.

□ **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.

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

Retailing has seen such a transformation over the past decade that its very definition has undergone a sea change. No longer can a manufacturer rely on sales to take place by ensuring mere availability of his product. Today, retailing is about so much more than mere merchandising. Its about casting customers in a story, reflecting their desires and aspirations, and forging long-lasting relationships. As the Indian consumer evolves they expects more and more at each and every time when they steps into a store. Retail today has changed from selling a product or a service to selling a hope, an aspiration and above all an experience that a consumer would like to repeat.

For manufacturers and service providers the emerging opportunities in urban markets seem to lie in capturing and delivering better value to the customers through retail. For instance, in Chennai CavinKare LimeLite, Marico Kaya Skin Clinic and Apollo

Hospital Apollo Pharmacies are examples, to name a few, where manufacturers/service providers combine their own manufactured products and services with those of others to generate value hitherto unknown. The last mile connect seems to be increasingly lively and experiential. Also, manufacturers and service providers face an exploding rural market yet only marginally tapped due to difficulties in rural retailing. Only innovative concepts and models may survive the test of time and investments.

However, manufacturers and service providers will also increasingly face a host of specialist retailers, who are characterized by use of modern management techniques, backed with seemingly unlimited financial resources. Organized retail appears inevitable.

OPPORTUNITIES

Retail marketing gets various opportunities to grow up in the Indian market. Not only retailing but Manufacturers as well as suppliers, and buyers have various opportunities, some of which are mentioned below-

- **WHAT IS IN STORE-** Organized retail provides brands much needed visibility and platform for customer interaction. It also helps in launching of new product or product variant and in market penetration. It has wider product range and more frequent, speedier deliveries.
- **URBANIZATION** – Increased urbanization has shifted consumers to one place and thus a single retail can catch more customers.
- **NUCLEAR FAMILY-** As the time passed away joint families came in a new form i.e. nuclear family. Again the income level of these nuclear families increases because both members started earning. This results into increased power of purchase and lack of time. Now they want everything under one roof. This brought the concept of organized retailing.
- **PLASTIC REVOLUTION** – Increased use of credit cards is in favor of retail marketing. It creates requirement even when it is not necessary.
- **JO DIKHTA HAI WOH BIKTA HAI** – Organized retail stores put stress on proper infrastructure like well maintained building, air conditioning, trained employees, electronic machine, parking facilities and proper display of goods category wise.
- **EMPLOYMENT** - Retail marketing is one of the largest employments generating industry. It provides employment to skilled, semi-skilled as well as unskilled persons. Thus it helps in the socio- economic development of the society.
- **PRICE WAR** – Increase in the no of retail outlets increases competition among these retailers. To attract customers they give various promotional schemes as various discounts, buy one get one free, another product with any particular product, festival special, etc.
- **CONTRACT FARMING** – The retail marketers directly purchase from farmers and reducing middlemen, thus provide proper cost to farmers and also set proper price for consumers. They also make contract with farmers to get proper amount of crops and vegetables.

□ REDUCES SUPPLY CHAIN MANAGEMENT - The big players of retail marketing and the manufacturing companies directly come in contact thus reducing many intermediary chains. Manufacturers also give many promotional schemes for their product that is beneficial for consumers.

1.8 CONCLUSION

There is very huge potential for the growth of organized Retailing in India. By following some of the strategies it can rise tremendously and can reach each and every nook and corner. Open communication should be established between functional departments. A balance should be maintained between brand building and promotion. Non-marketing factors like gas prices, weather etc. should be avoided and new schemes should always be launched. 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.

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.

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