

GROWTH AND CHALLENGES OF RETAIL INDUSTRY IN INDIA: AN ANALYSIS

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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, Industry, Major Players.

Indian Retail Industry

India's Retailing Boom has acquired further momentum, dynamism and vibrancy with international players experimenting in the Indian market and the country's existing giants taking bold innovative steps to woo the consumer. At the same time, the early entrants are redefining their

strategies to stay competitive and suit the new market landscape. The next few years are likely to witness rapid growth in the organized retailing sector with several leading international players establishing their presence in India by adjusting their formats to suit local tastes and buying behavior while regional players have stepped up their defenses and are striving to gain edge over global players by using their knowledge of local markets. Clearly the next wave of the retail boom is upon us.

Retailing is one of the pillars of the economy in India. Over the past few years, the retail sale in India is hovering around 33-35% of GDP as compared to 20% in the US. 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 tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. Now with growing market demand, the industry is expected to grow at a pace of 25-30% annually. The Indian retail industry is currently growing at a great pace and is expected to go up to US \$ 833 billion by the year 2013. In the last four years consumer spending in India has climbed up to 75%. In India though, organized retail accounts for approx. 5-6% of total retail revenues, however, with a young population, increasing disposable income, changing life styles and a robust economy India is set to emerge as one of the fastest growing organized retail markets in the world.

Organized retailing refers to trading activities undertaken by licensed retailers, i.e. those who are registered for sales tax, income tax, etc. These include the corporate backed hypermarkets and retail chains and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low cost retailing, for example, the local kirana shops, owner manned general stores, convenience stores, hand cart and pavement vendors etc.

Objectives of paper:

Modern retailing formats in retail sector in India are becoming popular now a day. This is the sector which shows the maximum potential yet to be explored because, still 97-98% of total retail industry lies with unorganized sector. The domestic retail market is expected to grow from \$330 billion in 2007 to \$640 billion by 2015. It means yet domestic as well as international organized retailers have the unexplored potential in Indian economy. Yet modern retailing is going through transition in India,

upcoming modern formats have to face a very tough competition from traditional formats. People are not ready to give up habits and mind set for traditional mom and pop shop. And on the other hand, an ever- going variety of institutions, constantly buffeted by a highly fluid environment leads the unorganized sector to be fiercely competitive and innovatively oriented. Without modifications and innovations in working style of small kiriyana stores their existence will be at the stake. This kind of thinking in the society is also compelling 'kiriyana stores' to change their format and be a bit organized at their level. Keeping in view this fact the paper focuses on the following objectives:

1. To understand the evolution of retail sector in India
2. To study the popular retail formats
3. To study the emerging retail trends in India
4. To study the growth trends of Indian retail sector
5. To study the factors having impact on growth of organized retail sector
6. To study the future prospects of organized retail sector in India.

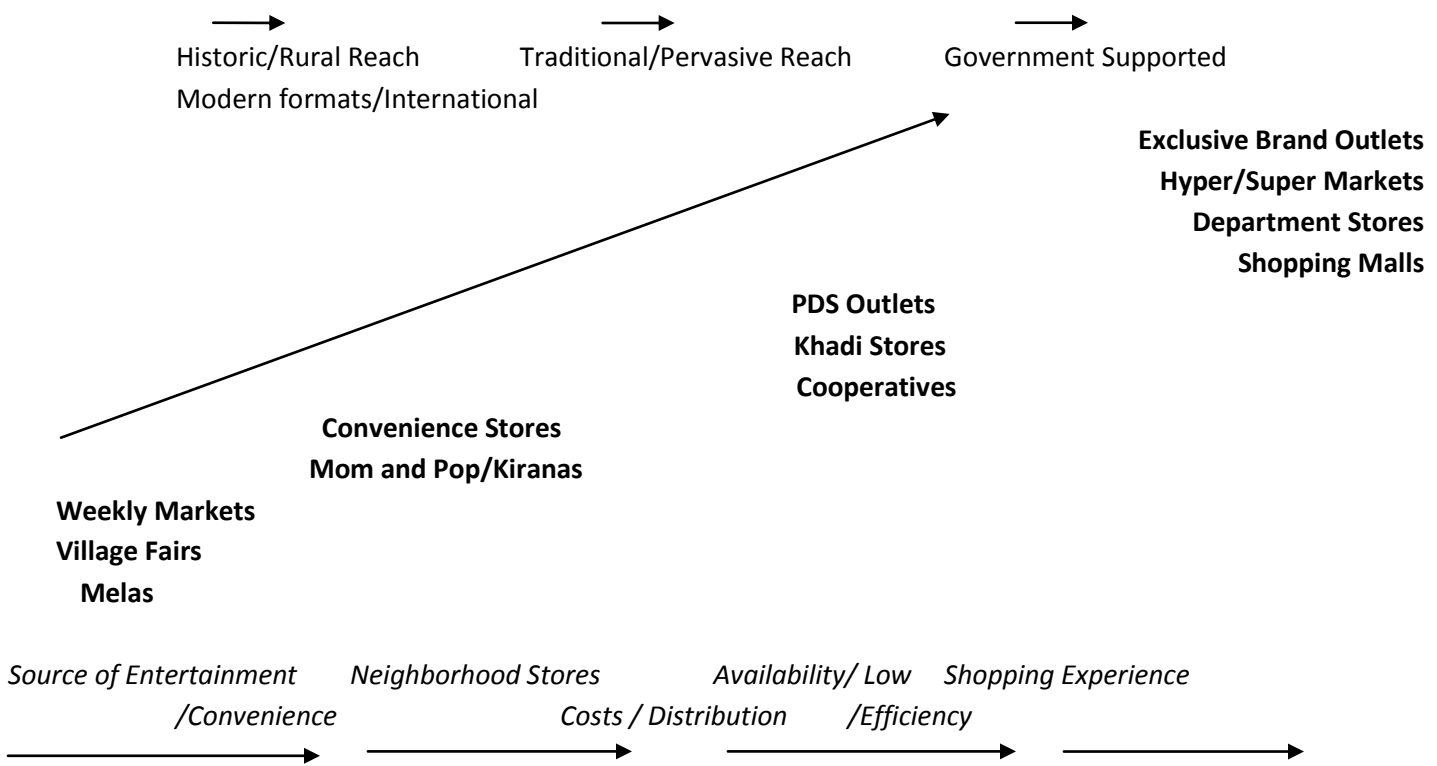
Research Methodology:

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.

Evolution of Indian retail:

Retailing is one of the biggest sectors and it is witnessing revolution in India. The new entrant in retailing in India signifies the beginning of retail revolution. India's retail market is expected to grow tremendously in next few years. According to AT Kearney, The Windows of Opportunity shows that Retailing in India was at opening stage in 1995 and now it is in peaking stage in 2006. The origins of retailing in India can be traced back to the emergence of Kirana stores and mom-and-pop stores. These stores used to cater to the local people. Eventually the government supported the rural retail and many indigenous franchise stores came up with the help of Khadi & Village Industries Commission. The economy began to open up in the 1980s resulting in the change of retailing. The first few companies to come up with retail chains were in textile sector, for example, Bombay Dyeing, S Kumar's, Raymond's, etc. Later Titan launched retail showrooms in the organized retail sector. With the passage of time new entrants moved on from manufacturing to pure retailing.

Retail outlets such as Food world in FMCG, Planet M and Music world in Music, Crossword in books entered the market before 1995. Shopping malls emerged in the urban areas giving a world-class experience to the customers. Eventually hypermarkets and supermarkets emerged. The evolution of the sector includes the continuous improvement in the supply chain management, distribution channels, technology, back-end operations, etc. this would finally lead to more of consolidation, mergers and acquisitions and huge investments. India's retail market is expected to grow tremendously in next few years. India shows US\$330 billion retail market that is expected to grow 10% a year, with modern retailing just beginning. In India, the most of the retail sector is unorganized. The main challenge facing the organized sector is the competition from unorganized sector. Unorganized retailing has been there in India for centuries. The main advantage in unorganized retailing is consumer familiarity that runs from generation to generation. It is a low cost structure; they are mostly operated by owners, have very low real estate and labor costs and have low taxes to pay. Organized retail business in India is very small but has tremendous scope.



Source: ICICI Bank (2004, Feb). Foreign Direct Investment in Retail

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.

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

GROWTH OF RETAIL INDUSTRY IN INDIA

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 organized retail market is growing at 3.5 percent annually while growth of unorganized retail sector is pegged at 6 percent. The Retail Business in India is currently at the point of inflection. Rapid change with investments to the tune of US \$ 25 billion is 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 management consulting firm Techno park Advisors Pvt. Ltd., it is valued at about US \$ 350 billion. Organized retail is expected to garner about 16-18 percent of the total retail market (US \$ 65-75 billion) in the next 5 years.

According to the tenth report of GRDI of AT Kearney, India is having a very favorable retail environment and it is placed at 4th spot in the GRDI. The main reasons behind that is the 9% real GDP growth in 2010, forecasted yearly growth of 8.7% through 2016, high saving and investment rate and increased consumer spending. According to report, organized retail accounts for 7% of India's roughly \$435 billion retail market and is expected to reach 20% by 2020. Food accounts for 70% of Indian retail, but it remains under penetrated by organized retail. Organized retail has a 31% share in clothing and apparel and continues to see growth in this sector. A report by Boston Consulting Group has revealed that the country's organized retail is estimated at US \$ 28 billion with around 7% penetration. It is projected to become a US \$ 260 billion business over the next decade with around 21% penetration. The analysts believe that the sector is likely to show significant growth of over 9% over the next ten years and also see rapid development in organized retail format with proportion likely to reach more respectable 25% by 2018. The BMI India Report for the first quarter of 2012 released forecasts that total retail sales with growth from US \$ 422.09 billion in 2011 to US \$ 825.46 billion by 2015. The report highlights strongly underlying economic growth, population expansion, increasing disposable income and rapid emergence of organized retail infrastructure as major factors behind the forecast growth.

According to department of Industry Policy and Promotion Cumulative, FDI inflows in single brand retail trading stood at US\$ 44.45 million during April 2000 to September 2011.

Indian retail sector is wearing new clothes and with a three year compounded annual growth rate of 46-64%, retail is the fastest growing sector in the Indian economy. The sector is the second largest employer after agriculture, employing more than 35 million people with wholesale trade generating an additional employment to 5.5 million crore. The enormous growth of retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace. According to report titled "India Organized Retail Market 2010", published by Knight Frank, during 2010-12, around 55 million square feet of retail space will be ready in Mumbai, NCR, Bangalore, Kolkata, Chennai, Hyderabad and Pune. Besides between 2010 and 2012 the organized retail real estate will be grown from existing 41 million square feet to 95 million square feet. The total no. of shopping mall is expected to expand at CAGR of 18.9% by 2015. Hypermarket, currently accounting for 14% of mall space is expected to witness high growth. Industry experts predict that the next phase of growth in the retail sector will emerge from the rural market. By 2012, the rural retail market is projected to have a total of more than 50% market share.

India's retail market is expected to be worth about US\$ 410 billion, with 5 per cent of sales through organised retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly—up to US\$ 535 billion in 2013, with 10 per cent coming from organised retail, reflecting a fast-growing middle class, demanding higher quality shopping environments and stronger brands, according to the report 'Expanding Opportunities for Global Retailers', released by A T Kearney.

TABLE – I
Share of Retail Trade in Gross Domestic Product (G.D.P.)

Year	% age share of Retail Sector
2007	8%
2009	12%
2011	22%

Source : AT Kearney

TABLE – II
Share of Organised Retail Sector in Total Retail Trade

Year	% age share of Organised Retail Sector	Source
2005	3.5%	AT Kearney
2008	5%	MC - Kinsey & Company
2010	8%	AT Kearney
2013	10%	AT Kearney

Data shown in Table - I and II is collected from secondary source. Therefore, these are in approximate figures.

FDI POLICY IN RETAIL

Growing liberalization of the FDI policy in the past decade has been one of the key factors for transforming India from a closed economy into one of the favored destinations for foreign investments. The FDI policy governs and regulates the entire inflow of foreign investments into the country. The current FDI cap across various sections in retail is as follows:

TABLE-III
FDI POLICY IN RETAIL (AUGUST 2011)

SECTOR/ ACTIVITY	FDI CAP	ENTRY ROUTE
Wholesale cash and carry trading	100%	Automatic
Single brand product retailing	51%	Foreign investment promotion board

Multi brand front end retail	Currently not allowed	
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The government is considering in allowing foreign direct investment in multi brand retailing as a measure to make India more attractive to overseas investors. The proposal, piloted by the Department of Industrial Policy and Promotion (DIPP) is currently at the discussion stage and is awaiting government clearance. Liberalization of FDI in multi brand retail is getting closer to reality. After almost a year of deliberation, the white paper published by the DIPP\ Ministry of Commerce and Industry, a retail FDI draft document has been submitted to the Union Cabinet for approval. This is the final hurdle that needs to be surpassed. One aspect seems to be clear that will be no one shot, big-bang kind of approach toward introducing FDI in multi brand retail. Instead, we could expect a phased liberalization approach with a number of conditions laid down, at least initially, for foreign retailers to enter India. The conditions would be intended to assure the opposition parties, the local retailer lobbies, the farmer and trade union etc. that the government has adopted a balanced midway' kind of approach after due consideration of the views of all stakeholders involved.

On 10th Jan, 2012 Indian Government allow Foreign Investment to float and run wholly owned single brand retail stores even as the bigger reform measure opening multibrand retailing to international investors remains mired in political cobweb. Currently, FDI in retail trade is prohibited except in single brand retail trading in which upto 51% FDI is permitted, subject to certain conditions. The DIPP, part of ministry of commerce and Industry has now allowed FDI upto 100% in single brand product retail trading under the Govt. approval route. However the Govt. has put on hold provisions for 51% FDI in multibrand retail.

This relaxation in Foreign Investment norms for single brand retailing would be subject to following conditions:

- ➔ Products should be sold under the same brand internationally.
- ➔ It would cover only those products which are branded during manufacturing.

- It would need to ensure mandatory sourcing of at least 30% of the value of the product sold, to be done from Indian small Industries/village and cottage Industries, Artisans and Craftsmen.

Small Industry will be defined as Industry with the total investment in plant and machinery not exceeding \$1million. The relaxation in foreign investment in single brand retail sector comes as the compromise for the government who has been able to arrive at a political concusses to open multibrand retail stores for foreign investors.

Challenges Faced by the Retail Industry:

- **International Standards:** Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.
- **Inefficient supply chain management:** Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down inventory cost, which can then be passed on to the consumer in the form of low pricing.
- **Lack of Retail space:** Most of the retail outlets in India have outlets that are less than 500 square feet in area. This is very small by International Standards.
- **Cultural Diversity:** India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging.
- **Real estate issues:** The enormous growth of the retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace. With over 1,000 hypermarkets and 3,000 supermarkets projected to come up by 2011, India will need additional retail space of 700,000,000 sq ft (65,000,000 m²) as compared to today.
- **Human resource problems:** Trained manpower shortage is a challenge facing the organized retail sector in India. The Indian retailers have difficulty in finding trained person and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels.

- **Frauds in Retail:** It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.
- **Challenges with Infrastructure and Logistics:** The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.

Future Prospects of Organized Retail Sector in India:

India has been ranked as the third most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm.

AT Kearney's study on Global Retailing Trends Found that India is the least competitive as well as least saturated of all major Global markets. This implies that there are significantly low entry barriers for players trying to setup base in India, in terms of competitive landscape. The report further stated that Global Retailer such as Wal-Mart, Carrefour, Tesco and Casino would take advantage of more favorable FDI rules that are likely to be introduced in India. A good talent pool, unlimited opportunities, huge markets and availability of quality raw material at cheaper cost is expected to make India overtake the world best retail economies by 2042.

The sector is expected to see an investment of over \$30billion within next 5 years and putting modern retail in the country to \$175-200 billion, according to Technopark estimates. International retailers see India as the last retailing frontier left as the Chinas retail sector is becoming as saturated. Domestic players are selectively growing in India-postponing aggressive expansion plans, adding stores judiciously and shifting gears to tier 2 and 3 cities. While India is

a difficult market to enter, the potential payoff is huge. India's population of nearly 1.2 billion – forecast eventually to overtake China's –also is an attractive target.

- Carrefour, the world's second-largest retailer, has opened its first cash-and-carry store in India in New Delhi. Germany-based wholesale company Metro Cash & Carry (MCC) opened its second wholesale centre at Uppal in Hyderabad, taking to its number to six in the country.
- Jewellery retail store chain Tanishq plans to open 15 new retail stores in various parts of the country in the 2011-12 fiscal.
- V Mart Retail Ltd, a medium-sized hypermarket format retail chain, is set to open 40 outlets over the next three years, starting with 13 stores in 2011, in Tier-II and Tier-III cities.
- Reliance Retail, the wholly owned subsidiary of Mukesh Ambani's Reliance Industries, is set to open 150 stores by the end of Dec. 2011 and double the number of stores across the country in all formats within five years.
- Future Value Retail, a Future Group venture, will take its hypermarket chain Big Bazaar to smaller cities of Andhra Pradesh, with an investment of around US\$ 1.54 million to US\$ 4.41 million depending on the size and format.
- RPG-owned Spencer's Retail plans to set up 25 Hyper Markets Through 2012 in the country.
- Spar Hypermarkets, the global food retailing chain of the Dubai-based Landmark Group, expects to start funding its India expansion beyond 2013 out of its local cash flow in the country. So far, the Landmark Group has invested US\$ 51.31 million in setting up five hypermarkets and plans to pump in another US\$ 51.31 million into the next phase of expansion.
- Leading watchmaker Titan Industries Limited plans to invest about US\$ 21.83 million for opening 50 premiums watch outlets Helios in next five years to attain a sales target of US\$ 87.31 million.
- British high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years.
- Spain's Inditex, Europe's largest clothing retailer opened the first store of its flagship Zara brand in India in June 2010. It further plans to open a total of five Zara outlets in India.
- Bharti Retail, owner of Easy Day store—supermarkets and hyper marts—plans to invest about US\$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country by then, according to a company spokesperson.

- India's retail industry is the second largest sector, after agriculture, which provides employment opportunities. According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the retail sector will create 50,000 jobs in next few years.
- Retail companies are starting retail management courses in partnership with management institutes, roping in talent from other sectors and developing comprehensive career growth and loyalty plans for existing employees. Top players like Pantaloon Retail India Limited, Trent, Shopper's Stop, RPG Group and ebony are virtually on their toes. Consider the plans of largest player, The Pantaloon Retail India Ltd; the company has developed a comprehensive strategy, where in it expects that in 2years, it will not recruit any new managers from outside.

Suggestions for retail sector in India:

Many agencies have estimated differently about the size of organized retail market in 2011. The one thing that is common amongst these estimates is that Indian organized retail market will be very big in 2011. The status of the retail industry will depend mostly on external factors like Government regulations and policies and real estate prices, besides the activities of retailers and demands of the customers also show impact on retail industry. As the retail market place changes shape and competition increases, the potential for improving retail productivity and cutting costs is likely to decrease. Therefore it is important for retailers to secure a distinctive position in the market place based on values relationships or experience.

Finally, it is important to note that these strategies are not strictly independent of each other; value is function of not just price quality and service but can also be enhanced by personalization and offering a memorable experience.

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