

ORGANIZED RETAILING FUTURE in INDIA

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ABSTRACT

Retailing in India can be broadly categorized into organized and unorganized form of retailing. Organized retailers are registered under Income Tax and Sales Tax. However the chunk comprises of unorganized retailers like petty shops. The study aims at to identify the various impacts of organized retailing on unorganized retailers. The study shows customer attitude towards

unorganized and organized retailers shows that there was a perceived difference between organized retailers and unorganized retailers on the attributes of store image, range of products, brand choices, price, store ambience, credit availability, shop proximity and complements. However there was no perceived difference on product freshness and customer care. This study clearly point out that the unorganized retailers are facing stiff competition from the organized retailers. This has been reduced their sales, profit, and employment considerably. The operational cost, consumer credit also increased certain level due to the presence of organized retailers. So the initiatives should be taken to protect the interest of the unorganized sector as this sector having the employment opportunity to the majority of the society.

Keywords: Retailing, retail sector, Indian FMCG, unorganized retailing, Revolution, Market Liberalization, Modern Retailing Techniques, Consumerism, Challenges & Opportunities.

Introduction

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country 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.

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. Indian retail is expected to grow 25 per cent annually. Modern retail in India could be worth US\$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US\$ 16.7 billion business, growing at over 20 per cent per year. The future of the India Retail Industry looks promising with the growing of the market, with the government policies becoming more favorable and the emerging technologies facilitating operations. The whole retail industry is segmented based on the type of products they are dealing, these can be

1. Food and Grocery
2. Consumer Durables
3. Clothing, Textiles and Fashion accessories
4. Jewelry
5. Watch
6. Footwear
7. Health beauty care products
8. Mobile handsets and accessories
9. Furniture and furnishings

GROWTH DRIVERS OF RETAIL SECTOR

India is currently the ninth largest retail market in the world. The [Indian retail market](#) is estimated at US\$ 350 bn and organized retail accounts for merely 2% to 3% out of the total retail market in India. This, more than anything underlines the tremendous scope for growth in organised retailing in the years to come.

Retailing in India has witnessed tremendous growth in the last few years. Organised retail in India is on a high growth path and is expected to grow at a CAGR of 40% over the next few years and by 2020 it is expected to grow to US\$ 22 bn (Source: IBEF). In this article, we have analysed the factors that have and will continue to drive growth of the organized retail sector.

Changes in demographics: India has the lowest median age of 24 as compared to developed countries like USA, UK, Japan etc. The composition of the Indian population is shifting towards the age group of 20-49 i.e. the working population with purchasing power. Approximately 60% of the Indian population is below 30 years of age. Thus, India has the largest 'young' population in terms of sheer size and this young segment is the major driver of consumption as they have the ability (disposable income) and willingness to spend.

Rising income levels: [India is the second fastest growing economy](#) in the world. A larger number of households are getting added to the consuming class with growth in income levels. Increasing instances of double incomes in most families coupled with the rise in spending power is further fuelling the growth of retail sector.

Changes in consumer needs, attitudes and behaviour: The growth of modern retail is linked to consumer needs, attitudes and behaviour. Rising income levels, education and global exposure have contributed to the evolution of the Indian middle class. As a result, purchasing and shopping habits have been inculcated and are increasing day by day. Historically, Indians have not been the ones to splurge on luxury items. Today, people are willing to try new things and look different, which has increased spending on health and beauty products apart from apparels, food and grocery items.

Increased credit friendliness: There has been a radical change in the Indian consumers' mindset regarding credit. With the easy availability of credit and declining interest rates, personal credit has witnessed growth. The boom in financing has resulted in an increase in spends on housing and consumer durables such as two-wheelers and cars. The use of plastic money (credit and debit cards) has increased significantly in the last 5-7 years. In fact the ease of payments (ability to spend without cash) due to the use of credit and debit cards, has also led to an increase in total spending on shopping and eating out. Indians withdrew nearly US\$ 50 bn using credit cards from ATMs in 2010. This includes US\$ 26 bn through Visa credit cards alone. Visa saw a 36% growth in the number of cards issued, making India the third biggest card market for Visa, after Japan and Korea (Source: IBEF). With the acceptance of and the increase in the number of electronic data converter machines installed in retailing outlets, credit and debit cards will provide further fillip to organized retail.

Increasing awareness of Indian consumers: Over the years, as a result of the increasing literacy in the country, exposure to the west, satellite television, foreign magazines and newspapers, there is a significant increase in consumer awareness among the Indians. Today more and more consumers are selective with regards to the quality of the products/services.

Growth in Indian retail has been driven by the country's economic fundamentals over the past few years. Increasing number of nuclear families, easy financing options, increase in the population of working women and emerging opportunities in the service sector during the past few years have been the key growth drivers of the [organised retail sector](#) in India. Consumers are now showing a growing preference for organised retail, resulting in increased penetration. The retailing sector is at an inflexion point where the growth of organised retailing and growth in consumption by the population is expected to take a higher growth trajectory. Going forward, we believe that accretion to income levels of the rising Indian middle class (represented by the financially independent young population) and the consequent rise in disposable incomes will fuel growth of the retailing sector.

India retail reforms

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 organized 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.

Single-brand retail reforms approved

On January 11, 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.

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, Wal-mart.

Overview of formats/channels

The Indian retail industry is categorised into different retail formats on the basis of the retail operation. The formats are basically defined on the basis of the size of the outlet, the pricing strategy followed, the type of merchandise sold, and also the location. Given below is a list of formats on the basis of the above-mentioned characteristics:

Hypermarkets: Hypermarkets are big-box formats with an average size that ranges between 60,000-120,000 square feet, and they stock multiple lines of products such as food and grocery, general merchandise, sports goods, and apparels. Hypermarkets are mammoth outlets that are fewer in number but cater to a larger area (3-5 kilometre). HyperCITY, Big Bazaar, RPG Spencer's and Shoprite Hyper are some major players in this format.

Supermarkets: The average size of supermarkets range from 10,000-30,000 square feet. They are a smaller version of hypermarkets that holds multiple lines of merchandise but is limited in number when compared with supermarkets. Supermarkets are spread across the city, are greater in number, but cater to a smaller area (1-2 kilometer). Foodworld, Food Bazaar and Spinach are some major players in this format.

Convenience stores: Convenience stores offer easy purchase experience through easily accessible store locations. The stores are basically small in size (500-3,000 square feet), which allows quick shopping and fast checkouts. Subhiksha and Reliance Fresh are some major players in this format.

Cash-and-carry outlets: Cash-and-carry outlet is strictly not a retail format, but considering the business dynamics it follows it can qualify for a retail format. In a retail business usually a consumer has to purchase one or more products but under this format, the consumers have to buy a minimum volume of products or value specified by the cash-and-carry retailer. In this format the buyers are basically small retailers or catering service providers who purchase in bulk quantities. This stores' size ranges from 100,000 square feet to 300,000 square feet. At present, Metro is a major player that falls under this format. Wal-mart's alliance with Bharti and Tesco's with Trent will also come under the cash-and-carry format.

Discount stores: The focus of these stores is to offer merchandise at a price that is lower than the market price, and to gain profit from volumes. These stores keep merchandise mainly on the basis of its saleability. Usually these are no-frill stores with simple surroundings and less service. Big Bazaar and Subhiksha are some famous examples.

Specialty stores: These stores usually ‘specialise’ in one line/category of merchandise. As these stores are concerned with only one type of merchandise, they are able to offer a wider range of products at a lower price. Examples: Next and Vijay Sales.

Department stores: These stores are typically lifestyle stores where most of the merchandise constitutes apparels and products other than food and grocery. These stores offer high quality service to consumers. These stores stock lesser merchandise than other formats since the merchandise is stored in a presentable manner. Notable examples are Shoppers Stop, Westside, Trent, and Globus.

Category killers: Many major retail chains have adapted small specialty store concepts and have expanded themselves to create large specialty stores. These expanded, large speciality stores are known as ‘category killers’. Ezone, which specialises in electronics, and Staples, which specialises in office stationery, are examples of category killers

Formats/Channels of organised retail

Channel/Format	Type of merchandise	Pricing	Size (sq ft)	Average stock-keeping units (SKUs)	Location	Example
Store						
Supercenter	All types of merchandise	Discount pricing	200,000-300,000	200,000	Outskirts	Wal-Mart supercenter
Hypermarket	Mostly food & grocery and apparels with focus on value products	Discount pricing	60,000-120,000	80,000	Malls	Hypercity, Big Bazaar
Supermarket	Food & grocery	Discount pricing	10,000-30,000	20,000	Malls	Food Bazaar
Neighbourhood/co-nvenience store	Daily use items		500-3,000	4,000	all localities within a city	Subhiksha
Cash and carry	Mostly food and grocery	Bulk buying, heavy discounts	100,000-300,000	150,000	outskirts	Metro cash and carry
Discount store	Food & grocery and fashion & accessories	Heavy discount	NA	NA	NA	Subhiksha
Department store	Apparel and accessories	Competitive	20,000-100,000	50,000	Malls	Shoppers Stop
Speciality store	Any one type of merchandise	Competitive	500-5,000	1,000	Main markets, Malls	Mobile Store
Category killer	Any one type of merchandise	Discount pricing	30,000-100,000	10,000	Malls, high streets	Vijay Sales
Non-store						
Kiosks/stalls	Small food items and accessories	Normal	20-100	50	Malls, multiplexes, cinema halls	Popcorn
Vending machines	small items	Normal	-	10	Stations, commercial and office complexes	Chocolate and newspaper vending machines
Order retailing (Catalogue/TV/Website)	Any type of merchandise	Competitive	-	-	-	Argos
Door-to-door	Mostly low-value items	Normal	-	-	-	Amway

Source: ICRIER and D&B Research

Share of formats in organized retail space in India

Format	No. of stores	area ('000 sq ft)	Share in total space (%)
Supermarkets / convenience stores	4,751	4,751	15.5
Hypermarkets	75	3,000	9.8
Discount stores	1,472	1,472	4.8
Specialty stores	20,612	16,490	53.7
Department stores	166	4,980	16.2
Total	27,076	30,693	100

Source: ICRIER and Technopak Advisers Pvt Ltd

Regulatory Framework

The Indian government has not focused on retail as an industry. Until now, there are no specific rules and regulations that are to be followed by retail companies. However, there are certain laws that the retailers need to follow, which are general in nature and which pertain to the establishment of stores and the conduct of activities. These laws are as follows:

- **Shop and Establishment Act**
- **Standards of Weights and Measures Act**
- **Provisions of the Contract Labour (Regulations and Abolition) Act**
- **The Income Tax Act**
- **Customs Act**
- **The Companies Act**

Apart from the above Acts, the companies also follow certain regional rules and regulations on the basis of the stores' location. In some regions regulations are imposed on the organised retailers to restrict their expansion and to promote regional retailers; for instance, the Tamil Nadu government imposed a 10% surcharge on organised retailers; the West Bengal government has been asking mall developers to reserve 10% space for unorganised retailers.

Retailers are also required to take necessary approvals from local bodies to carry on with their business. There is no single window for clearances, and companies have to go to different agencies to get approvals, which is one of the biggest hurdles that the segment faces.

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.

CONCLUSION

Indian retailing industry is significantly contributing towards the GDP and employment generation. Unorganized retailing has a predominant chunk of retailing in India. Organized retailing has its growth because of the propensity to consume behavior of Indian middle class segment. But, this was affected by the global financial meltdown. Despite of this retailing in India will have a tremendous future, if retail players concentrate on Indian rural segment, having vast and untapped potential. For this, the strategy should be different from that of urban to turn challenge as an opportunity.

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