

Retailing in India : An Overview

V. Sreedevi* and T. Narayanan*

** School of Management Studies, Noorul Islam University,
Kumaracoil, Kanyakumari District, Tamil Nadu*

INTRODUCTION

We live in a world that is very complex from what it was a few decades ago. The world today is more dynamic, vibrant and colourful than ever before. Change is a continuous process and has become an intrinsic part of our lives. The changes reflected in consumer shopping pattern have sown the seeds for a retail transformation that will see the organized path of this industry grow ever faster. Apart from metros, small cities and towns have also become the focus of the retail boom.

'Retail' is a French word which means "to cut a piece off" or "break the bulk". In the present context, it means sale to customer (in small quantity) which means first hand transaction with the customer. So, it includes all the activities of selling goods or services directly to the final customer for personal or business use.

Retailing is the interface between the producer and the individual consumer buying personal consumption. This excludes direct interface between the manufacturer and institutional buyer, such as the government and other bulk customers. A retailer is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer at a margin profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

Retail industry has brought phenomenal changes in the whole process of

production, distribution and consumption of consumer goods all over the world. In today's world most of the developed economies are using retail industry as their vital growth instrument. At present, in USA the retail industry holds the second place in terms of employment generation. In fact, strength of the retail industry lies in its ability to generate large volume of employment.

Retail has played a major role world over in increasing productivity across wide range of consumer goods and services. The impact can be best seen in countries like USA, Mexico, Thailand and most recently in China. Economies of countries like Singapore, Malaysia, Hong Kong, Sri Lanka and Dubai are also heavily assisted by the retail sector. The retail sector has acted as stimulus to growth in these countries.

EVOLUTION

Retail sector in India has been getting significant attention from the government, the promoters within India and the large retail chains from abroad among others. While most of the retail sector is unorganized; there has been increasing trend towards development of the organized sector. The growing economy, liberalised economic policies of the government, impact of globalization and the entrepreneurial opportunities available are playing key role in this respect.

The retail industry in India is of late often being hailed as one of the sunrise sectors in the economy. A.T. Kearney, the well-known International Management Consultancy, recently identified India as the second most attractive retail destination globally from among thirty emergent markets. It has made India the cause of gold deal of excitement and the cynosure of many foreign eyes.

SIZE AND SHARE OF RETAILING

The retail industry is divided into organised and unorganised sector. Organised 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. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, e.g., example the local kirana shops, owner manned general stores, handicrafts, pavement vendors, etc. (Table 1 & 2).

Table 1
Traditional Retail Format

Format	Definition	Value Position	Indian Examples
Counter Store	Food : Family run stores selling essential food items	High service, low price	Kirana stores
Kiosks	Pavement stalls selling limited variety of food and beverage	High service	Paan shops
Street Markets	Regular markets held at fixed centre retailing food and general merchandising items	Large selection, low price	Village haats
Street Vendors	Mobile retailers essentially selling perishable food items, fruit, vegetables, milk etc.	High service	Vegetable vendors in localities

Source : Annual Report - Pantaloon Limited 2005

Unorganised retailing is by far the prevalent form of trade in India constituting 98% of the total trade, while organized trade accounts only for the remaining 2%.

Table 2
Modern Retail Formats

Format	Definition	Value Position	Indian Examples
Departmental Stores	Multiple product categories usually life style driven with apparel / accessories dominating	Service and choice	Shopper's shop Life Style, West side
Super markets/ Convenience Store	Food and household products	Convenience	Big Bazaar, Food World
Hyper Markets/ Discount Stores	Large Stores in big box format with volume based discounted prices	Price and choice	Spencer's Hyper market
Specialty Stores/ Category killers	Extensive range of products under a single category	Service	Music world, planet sports Vijay sales etc.
Seamless mall	Apparel, Accessories Life style products Entertainment	Conveniences service and choice	In orbit, Mumbai Central, Bangalore

Source : Annual Report - Pantaloon Limited 2005

The retail industry in India has undergone a major shake up as the country is witnessing a retail revolution. The old traditional formats, malls and mega malls are coming up in almost all the places, be it – metros or the smaller cities across the length and breadth of the country. 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 life style products that are widely accepted by the urban Indian consumer. Indian retailers need to take advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention to the brand building process. The focus should be on branding the retail business itself. The overall retail market in India is likely to grow at a CAGR of 5.5% to Rs. 1677000 crore in 2015. As on 2003 the share of organised market is only 4% in India as against 85% in USA (Table 3).

Table 3
Share of Organised Trade (2003)

Country	Share
India	4%
China	17%
Poland	20%
Indonesia	30%
Russia	33%
Brazil	35%
Thailand	40%
Malaysia	55%
USA	85%

As per the estimate of TATA strategy Management Group the organised retail market is expected to grow much faster at a CAGR of 21.8% to Rs.246000 crore by 2015, thereby constituting 15 % of the overall retail sales. The top 5 organised retail categories by 2015 would be food, grocery & general merchandise, apparel, durables, food services and home improvement (Table 4).

Indian retail industry is the largest industry in India, with an employment of around 8% and contributing to over 10% of the country's GDP. Retail industry in India is expected to rise 25% yearly being driven by strong income growth, changing life styles and favourable demographic factors.

Table 4**Organised Retail Market in India (Rs. crore)**

Category	2004		2015	
	Rs.	%	Rs.	%
Food, Grocery & General Merchandise	2950	10	102546	42
Clothes, Textile & Fashion Acc.	10900	39	40605	16
Durables & Mobiles	3340	12	28891	12
Food Service	2000	7	24351	10
Home Improvement	2500	8	16346	7
Jewellery & Watches	1960	7	8770	3
Footwear	2500	9	6508	3
Books, Music, Toys & Gifts	800	3	3722	1
Others	1350	5	14692	6
Total	28000	100	246431	100

Source : TSMG Analysis

Overall, in India, a growth rate of 11.1% is registered by retail sector; and there are about 300 new malls, 325 departmental stores, 1500 super markets being built in cities and metros.

Shopping in India has witnessed a revolution with the change in the consumer buying behaviour; and the whole format of shopping has also undergone a big change. Industry of retail in India which has become modern can be seen from the fact that there are multi-storeyed malls, huge shopping centers and shopping complexes which offer food, shopping and entertainment all under the same roof.

Indian retail industry is expanding itself most aggressively, as a result of which great demand for real estate is being created. Indian retailers preferred to expand to other regions and to increase the number of their outlets in a city. It is expected that by 2010 India may have 600 new shopping centers.

In the Indian retailing industry, food is the most dominating sector and is growing at a rate of 9% annually. The branded food industry is trying to enter the Indian retail industry and convert Indian consumers to branded food. Since at present 60% of the Indian grocery basket consist of non-branded items.

A. T. Kearney Report ranked India as the second most attractive retail market after Russia in its global development index 2004. A study by Mickinsey points out that India's market for consumer goods could reach whopping \$400

billion by 2010 making it one of the five largest markets in the world (Table 5).

Table 5
Top Markets for Global Retail Expansion

Country	2005 Rank	2004 Rank
India	1	2
Russia	2	1
Ukraine	3	11
China	4	3

Source : A. T. Kearney Global Retail Development Index 2005

It is a matter of pride for India that it topped the A.T. Kearney Global Development Index 2005.

FACTORS FAVOURABLE FOR INDIAN RETAIL

Indian retail sector is highly fragmented and bulk of the business takes place in the unorganised sector. Broadly, the organised retail sector can be divided into two segments —

- (a) In store retailers who operate fixed point-of-sale locations created and designed to attract a high volume of walk in customers; and
- (b) The non-store retailers who reach out to the customers at their homes and offices.

Rapid urbanization, income growth, increased participation of women labour force and improvement in infrastructure in 1980s and 1990s led to organised retailing. Huge retail chains like Wal-Mart, Carrefour group, K.Mart etc. have replaced the individual small stores. It has also played a vital role in increasing productivity across a wide range of consumer goods and services. Large retail formats with high quality ambience, courteous and well-trained sales staff are important features.

Traditionally, retailing has not been a structurally organised industry in India. Organised retail network was only seen in fabrics with large mills building their own exclusive stores followed by jewellery and footwear industries. As India strives to integrate with world economy, the retail trade sector is bound to make giant strides. Moreover, there has been growth in the affordability of Indians, particularly the middle class, following easier customer credit and exposure to international life styles through TV media. Also, the

internet revolution is making Indian consumer more accessible to the growing influence of domestic and foreign retail chains. Despite the presence of all requisites essential for growth of retail industry in India it still faces certain problems.

In recent years, there has been a slow spread of retail chains in the form of supermarkets, development stores, malls and discount stores. Factors facilitating the spread of retail chains are the availability of quality products at lower prices, improved shopping standards, convenient shopping and display, blending of shopping and display and blending of shopping with entertainment.

Modern retailing is designed not only to provide consumers with a wide variety of products under one roof, but also of assured home delivery and information feed back among consumers and producers. A modern retail outlet will also make it easy to buy on credit and provide for servicing and repair of product sold. The growth potential for the organized retailer is enormous. Increase in disposable income, increasing proportion of working women in work force and change in life style, attitude and behaviour of customer's demand for global brands are the significant factors influencing growth in retail sector.

FDI IN RETAIL SECTOR

Recent changes in regulatory landscape mark India as an attractive destination for foreign trades. Previous Foreign Direct Investment rules prohibited direct ownership by retailers. The Government of India recently approved new FDI norms for several sectors including retailing. It has allowed up to 51% FDI in single brand retailing by foreign companies.

The major advantage of large retailers is that they have access to efficient supply chains which can reduce costs. The farmers are also likely to gain by reductions in wastage and better realization for their produce. Well-informed farmers might get access to foreign markets too through these global retailers. Small and medium enterprises that supply private label products to big retailers will find opportunities without the big investment needed for brand building. Supply chain efficiencies will benefit society at large.

FDI would result in market growth; and expansion of FDI provides access to global markets for Indian producers. The trend in FDI inflows are given in Table 6.

Table 6
Year-wise FDI Inflows During 2001-06

Year	Amount (US \$ in Millions)
Up to 1991-2000	16,703
2001	2,908
2002	4,222
2003	3,134
2004	2,634
2005	3,755
2006	4,927

Source : Collected from relevant publications of Govt. of India, New Delhi, Ministry of Commerce and Industry. (*Southern Economist*, August 15, 2008)

CHALLENGES

In this emerging scenario of flourishing retail segment passing through different time frames and evolving through different phases, it raises many eye raising issues and questions. In Indian retail industry, the conversion factor is relatively low.

A majority of Indian consumers still prefer to pay cash for their purchase and will use their credit cards only when absolutely necessary. This, however, is changing with the new generation. However, credit card usage is still lower than in developed economies. Coupled with this is the competition from traditional stores. The majority of food and food products are retailed through neighbourhood kirana stores. These kirana stores focus on dry food products in the absence of infrastructure for cold storage. Lack of trained manpower is also a constraint for the organised sector.

Apart from these, to become a truly flourishing industry, retailing needs to cross the following hurdles :

- Regulations restricting real estate purchases and local laws
- Taxation which favours small retail businesses
- Absence of developed supply chain and integrated IT management systems
- Low skill level for retailing management
- Intrinsic complexity of retailing—rapid price changes, constant threat of product obsolescence and low margin.

The retailers in India have to learn both the art and science of retailing by closely following how retailers in other parts of the world are organizing, managing and coping with new challenges in an ever-changing market place. Indian retailers use innovative retail formats to enhance shopping experience, and try to understand the regional variations in consumer attitudes to retailing. Retail marketing efforts need to be improved in the country — advertising promotions and campaigns to attract customers; building loyalty by identifying regular shoppers and offering benefits to them; efficiently managing high value customers and monitoring customer needs constantly are some of the aspects which Indian retailers need to focus upon as a proactive basis.

TOP INDIAN RETAILERS

India's organized retail, although less than Rs.45,000 crore in size already boasts of several players and different formats and categories. The big players are :

- Future group (Big Bazaar and pantaloon) of Kishore Biyani
- The Tata Group (it runs departmental stores under Westside, a books and music chain called Landmark, hyper market, Star India Bazaar and a customer durables chain christened crima, in a tie-up with UK's Woolworth)
- Sanjiv Goenka's RPG Group (Food World and Spencer's)
- Dubai-based Micky Jagtiani's Landmark group (Life Style)

Apart from the above, there are several small players including

- Subhiksha
- Trinetra and Nilgiri's. Most recently Kumar Mangalam Birla led AV Birla Group has announced plans of entering retail.

FUTURE

Since retail sector consumerism is booming, Indian organized retail is changing course from emerging to surging. Driven by a shift to organise formats and growth in industry size, there is an opportunity for the retail sector to grow.

India's total retail market size is Rs. 80 billion, which is expected to grow at a compounded 30% over the next five years. India's vast middle class and its almost untapped retail industry are the key attractions for global retail giants wanting to enter newer markets. The Indian consumers are now fascinated towards

the new upcoming products. In the growing economy, it is expected that the retail industry will become the growing industry in future.

CONCLUSION

While emergence of modern retail does affect the traditional channel (distributors in particular), the impact is limited as it operates on two different platforms. The increasing middle class income and changing consumerism of Indian population makes the retail sector grow to its optimum.

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