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RETAIL LANDSCAPE IN INDIA

AN ANALYSIS

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Abstract

Retailing in India is still in its infancy and is dominated mostly by the unorganized sector. Hereafter this situation does not exist. Because the old traditional formats in India is undergoing a major change. The traditional formats are changing into more complex and bigger formats. Malls and mega malls are coming up in almost all the places across the country. This can be attributed to the entry of large number of domestic and international players in the market. The depth of the Indian market and the variations of the consumer profile indicate a bright future for the sustained growth of the Indian retail sector. Adding fuel to this, the Indian Government had announced recently allowing 51% FDI for multiple brands retailing and 100% for the single brands retailing. But due to severe opposition from the political parties and the traders, the Indian government has suspended this retail reform till it reaches a consensus. If the retail reform is implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. This would be a step towards the development of the country. This paper aimed to shed light on Indian Retail Scenario, Modern Retail Format in India, Employment in Retailing, Organized Retail in India, Segments Contributing Organized Retail, Retail Reform on hold in India, Challenges and Trends in India Retail sector.

Key words: Organised Retailing, Unorganised retailing, Indian Retail Scenario, Retail Industry, Retail Reform.

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INTRODUCTION

The retail industry in India is at boom and getting organized day by day, the demands of customers are not just great products but also great shopping experience. Retail is the fifth largest destination; globally and owns the credit of being ranked as an attractive market for retail investment. It is the largest segment in India after agriculture, employing about 8% of the workforce and contributing more than 14% of the country's GDP. During the last decade, retail industries have built up strong lifestyle brands positioning themselves to cater to the taste and preferences of their consumers and utilizing the increasing income of the end users.

RETAILING

The word 'retail' is derived from the French word **“retailier”** meaning to “cut a piece of” or “to break the bulk”. Retailing involves a direct interface with the customers and includes co-ordination of business activities right from the design stage of a product to its delivery as well as post-delivery services to the customers. It facilitates the flow of goods and services from the manufacturers / wholesalers to the final users. In other words, retailers act as middlemen linking manufacturers with the ultimate consumers. Retail stores serve as a communication hub for customers. They transmit information to the customers through advertisement and displays.

ORGANIZED AND UNORGANISED RETAILING

Organised retailing refers to trading activities undertaken by licensed retailers, that is, 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, for example, the local kiranashops, owner manned general stores, paan/beedishops, convenience stores, hand cart and pavement vendors, etc.

INDIAN RETAIL SCENARIO

The retail scenario in India is unique and is divided into organised and unorganised sectors. Much of it is in the unorganized sector. With over 12 million retail outlets of various sizes and formats, almost 95% of these retail outlets are functioning in less than 500 sq. ft. In the size and the percapita retail space in India being 2 sq. ft compared to the U.S figure of 16 sq. ft. India's percapita retailing space is the lowest in the world. With more than 11outlets per 1000 people, India has the largest number in the world. There is an incredible amount of activity in terms of creation of retail-oriented space across India.

Why this scenario?

Vast majority of the unorganized retail shops in India employ family members, do not have enough financial facilities, do not have the scale to procure or transport products at high volume, wholesale level, no quality control or fake-versus-authentic product screening technology and have no training on safe and hygienic storage, packaging or logistics. The unorganized retail shops source their products from a chain of middlemen who mark up the product as it moves from farmer or producer to the consumer. These unorganized retail shops typically offer no after-sales support or service. Finally, most transactions at unorganized retail shops are done with cash, with all sales being final.

Will the scenario exist hereafter?

No, the scenario of Indian Retail Industry does not exist. Because, the consumers in India have begun to experience the quality, choice, convenience and benefits of organized retail industry. Along with the existing major players, many more new players are entering into this “Retail War” to flourish this industry. Hence, a perceptible structural change towards an organised format is foreseeable in the retail sector. Now, the retail sector in India is not only expanding but also modernizing. This new trend began during late 1990s and early 2000s. In the midst of the unorganized retail sector's strong dominance, some of the major industrial houses have announced ambitious future expansion plans. Some of them are, Transnational corporations have also joined hands with big Indian companies to set up retail chains, India's Bharti group joined hands with Walmart, the world's largest retailer and Tata group tied up with the UK based Tesco, the world's third largest retail group.

ORGANIZED RETAIL IN INDIA

Table - 1

Comparative Penetration of Organised Retail (in %)

Country	Organised Retail	Unorganised Retail
USA	85	15
France	80	20
Japan	66	34
Malaysia	55	45
Brazil	36	64
Russia	33	67
China	20	80
India	5	95

Sources: *The retailer, Ernst & Young, January 2009; Working Paper No 222, Impact of Organized Retailing on the Unorganized Sector, ICRIER*

The table 1 shows the Comparative Penetration of Organized Retail. When compared to US, The Indian retail sector is highly fragmented with 95 per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. Now, the Indian

retail scenario has gained the attention of the entire new players in the market and there will be huge opportunity for prospective new players also, result in more employment opportunities. The following are the major growth factors responsible for modern/organised retail in India.



Figure 1
The major growth factors for the Organised Retail in India

EMPLOYMENT IN RETAILING

Table 2
Share of Retailing in Employment across different countries

Country	Employment (%)
India	8
USA	16
Poland	12
Brazil	15
China	7

Source: Presentation to FICCI by Alan Rosling (Chairman, Jardine Matheson Group): "International Experience on Policy Issues."

The above table 2 shows the Share of Retailing in Employment across different countries. The retail sector can generate huge employment opportunities, and can lead to job-led economic growth. In many countries it is the largest sector for creating employment. Total retail employment in India, both organized and unorganized, account for about 8% of Indian labor work force currently - most of which is unorganized. Now the retail industry is getting organized which leaves room for creating millions of new jobs directly and also indirectly. Retail can create as many new jobs not only in the retail sector alone but also in the BPO/IT sector, agriculture & food processing, handicrafts, and small & medium manufacturing enterprises, hospitality and tourism indirectly in India.

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.

MODERN RETAIL FORMAT IN INDIA

The organized / modern retail format provide variety of products under one roof and also with some pleasant enjoyable experience to the consumers by providing improved facilities like shopping ambience, friendly layout and a single point-of-purchase laced with the lure of discounts. The modern, systematic and consumer oriented shopping culture is the mainstay of organized retailing.

The following table describes the Indian Organised Retail Formats with its description and key players.

Table – 3
Indian Organised Retail Formats

Name of the format	Description	Players
Hypermarket	Mother of all retail formats and offers everything from Typically, a hypermarket spans more than 1,00,000 sq. ft. of space and can be located outside the city center.	Future group's Big Bazaar, Spencer's Hypermarket and Trent's Star India Bazaar.
Supermarket	It offers variety of foods, grocery and household items and is located in residential areas.	Food world, Food Bazaar
Departmental stores	Carries various 'departments' such as apparels, houseware, furniture, jewellery and appliances, but is much smaller than a hypermarket in terms of space and SKUs.	Shoppers' stop, Westside, Lifestyle, Pantaloon etc.,
Convenience store	It offers accessibility; Hence it is located in crowded places.	Nilgiris in South
Exclusive outlet	Stocks a single brand and could be either company-owned or franchised.	Raymond, Madura Garmetns, LG, etc.,
Discount store	Offers no frills such as spacious, well-lit and A.C retail space, but makes up by marking down MRP.	Subhiksha
Cash-n-Carry	It is a B2B format, where the retailer sells to shopping establishments and large institutional customers.	Metro

Source: Krishna Gopalan, Abona Ghosh, 'Retail Rush', Business Today, June 2006.

SEGMENTS CONTRIBUTING ORGANIZED RETAIL

Table -4
Organized retail segments

Retail Segments	% Organized (2007)
Clothing, textiles & fashion accessories	38.1
Jewellery	2.9
Watches	2.7
Footwear	9.9
Health & beauty care services	0.8
Pharmaceuticals	2.0
Consumer durables, home appliances/equipments	9.1
Mobile handsets, accessories & services	3.5
Furnishings, utensils, furniture-home & office	6.4
Food & grocery	11.5
Out-of-home food (catering) services	7.3
Books, music & gifts	2.8
Entertainment	3.0

Source: CRISINFAC

The above table shows the Share of Organized Retail category to total market in India. Clothing & Fashion Accessories is the largest category with 38.1 per cent of the market share to total market, followed by Food & Grocery accounting for 11.5 per cent of the organised retail market, Footwear with 9.9 per cent of the organised retail market share, Consumer Durables with 9.1 per cent market share at the fourth place and Out-of-home food (catering) services and Furniture, Furnishings & Kitchenware retail in the order of landscape.

The challenges faced by the Indian retail industry are,

- Property and real estate issues,
- Need of Huge capital,
- Absence of developed supply chain
- Competition from unorganized sector,
- Shortage of talented professionals,
- Lack of adequate infrastructure,
- Stringent labor laws,
- The retail sector does not have ‘industry’ status,
- Government restrictions on the FDI and
- Differential tax rates for various states
- Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins
- Lack of Retailing Courses and study options

RETAIL REFORM ON HOLD IN INDIA

"FDI in retail trade can not only organize a significant part of the largely unorganized domestic retailing, but also invite established global retail brands into the Indian market, thereby creating greater outlets for outsourcing and marketing Indian products."

- Recommendations from Economic Survey of 2004-05.

India allowed foreign direct investment (FDI) in cash and carry wholesale in 1997. Then, it required government approval. The approval requirement was relaxed, and automatic permission was granted in 2006. Between 2000 and 2010, Indian retail attracted about \$1.8 billion in foreign direct investment, representing a very small 1.5% of total investment flow into India. In November 2011, The Union Cabinet had approved 51% FDI in multi-brand retail and raised the cap on FDI in single-brand retail from 51% to 100%. This announcement immediately caused intense activism - both in opposition and in support - within India. On 7 December 2011, The Indian government suspended the retail reforms till it reaches a consensus.

The retail reform, allowing 100% FDI in multi-brand retail in countries like Thailand and China has done a tremendous change in the development of the country. Initially these countries also met with the protests of the issue of allowing FDI in the retail sector, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP.

This will also make a remarkable change in the economy of India also. If this reform is once approved by the government, global retail companies like Wal-Mart, Carrefour, and Tesco will be able to sell grocery, food and other merchandise directly to consumers. Currently these companies are only permitted to operate in the cash-and-carry facility and the back-end supply chain management operations catering to wholesale and business consumers.

Benefits of the Retail Reform

- FDI in retail will make way for inflow of knowledge from international experts which results in overall growth of the industry.
- This will boost investment in infrastructure from the retail players, improve the efficiency of the supply chain, which will bring down the wastage and increase efficiency and
- This enables farmers to get better prices for their crops
- Consumers will get commodities of daily use at reduced prices.
- Reduces food inflation.
- Provides huge employment opportunity
- Drop in food wastage
- Better consumer choice
- Earning of Foreign Exchange
- It will boost the country's GDP and provides a basis for overall development of the country as a whole.

FUTURE AND TRENDS IN INDIA RETAIL

- The biggest opportunities for international brands are in the food and beverage segment and also in the jewelry segment.
- The business of fashion accounts for major position in total organised retail segment in the country. Hence, this retailing has indeed been responsible for single-handedly driving the business of retail in India
- A good talent pool, unlimited opportunities, huge markets and availability of quality raw materials at cheaper costs is expected to make India overtake the world's best retail economies by 2042, according to industry players.

- The retail industry in India will be a major employment generator in the future. Currently, the market share of organised modern retail is just over 4 per cent of the total retail industry, thereby leaving a huge untapped opportunity.
- According to Technopak estimates, The Indian retail sector is expected to see an investment of over \$30 billion within the next 4-5 years, catapulting modern retail in the country to \$175-200 billion by 2016.
- The BMI India Retail Report for the third-quarter of 2010, forecasts that the total retail sales will grow from US\$ 353 billion in 2010 to US\$ 543.2 billion by 2014. With the expanding middle and upper class consumer base, there will also be opportunities in India's tier II and III cities. The greater availability of personal credit and a growing vehicle population to improve mobility also contribute to a trend towards annual retail sales growth of 11.4 per cent.
- The retail market in India is estimated at \$470 billion in 2011 and is projected to grow to \$675 billion by 2016, with a CAGR of 7.5 per cent over the next five years, according to consulting firm Technopak Advisors.

CONCLUSION

In India the purchasing power of the urban consumer is increasing and the consumers are interested in purchasing the branded merchandise in categories like Cosmetics, Watches, Beverages, Food and even Jewellery. Due to rapid urbanization and changing patterns of consumer taste and preferences, there is huge need for the organized retailing in India which offers unparalleled opportunities to the entrepreneurs and existing businesses seeking an entry in retailing. Though the Indian Government has suspended the retail reform, it may reconsider this and may allow a healthy FDI in retail which would bring not only foreign investment but also a positive change in the overall development of the country. And also this would enable the foreign players to make a footprint in India which creates competition among the players. A healthy competition would increase the quality of service of the existing local retailers and greater customer satisfaction in Indian society. As the Indian retail industry is getting organized day by day, there is no doubt that the retail scene will shine in coming days.

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