

## **ORGANISED RETAILING IN INDIA : OPPORTUNITIES AND CHALLENGES**

\*Kanwaljeet

Assistant professor (contractual)

Chaudhary Devi Lal University, Sirsa

### **Abstract**

Indian Retail Industry is ranked as one of the biggest retail market in the whole world. It has been ranked the second most attractive market for investment after Vietnam. The Indian retail industry is estimated to be worth Rs 13-14 lakh crore and is very much fragmented by nature. Organised retail in India was valued at 96,500 crore in 2008 with an impressive growth rate of 35- 40% in the last few years as compared to the 9-10% growth in

the overall retail industry. Now with a few to further boost and incentivize retail industry Government of Indian Introduced the new FDI policy for retail which is also expected to boost the organised retail sector and contribute to the overall growth of the country. Keeping this in mind this research paper provides detailed information about the growth of retailing industry in India. It also highlights the challenges faced by the industry in near future.

### **Introduction**

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US\$ 500 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. As of 2013, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

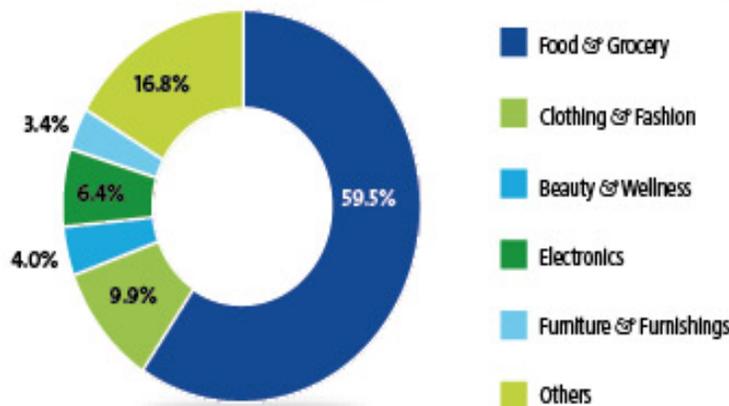
In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. In June 2012, IKEA announced it had applied for permission to invest \$1.9 billion in India and set up 25 retail stores. An analyst from Fitch Group stated that the 30 percent requirement was likely to significantly

delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision was welcomed by economists and the markets, but caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law. On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition. Some states will allow foreign supermarkets like Walmart, Tesco and Carrefour to open while other states will not.

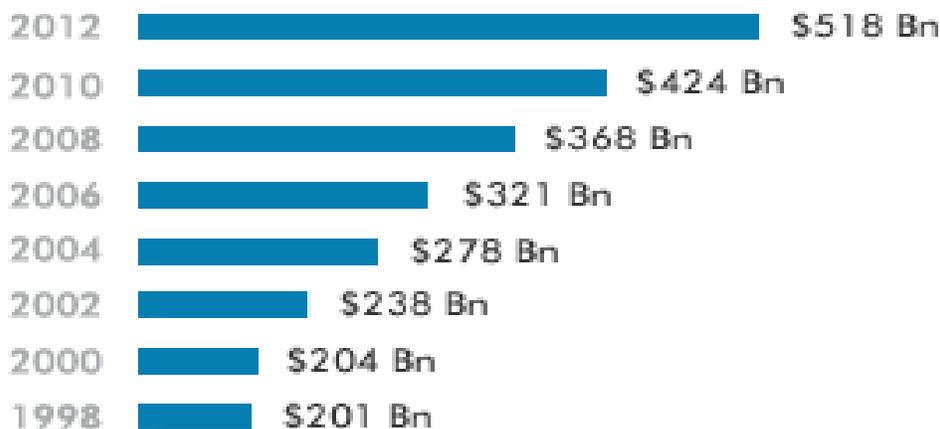
## Major market segments of the Indian retail industry

Indian household spending on food is one of the highest in the world



Source: Deloitte

### RETAIL CAGR 7% (FY 1998-2012)



## **Retail formats in India**

### **1. Hyper marts/supermarkets**

Large self-servicing outlets offering products from a variety of categories.

### **2. Mom-and-pop stores**

They are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.

### **3. Departmental stores**

Are general retail merchandisers offering quality products and services.

### **4. Convenience stores**

Are located in residential areas with slightly higher prices goods due to the convenience offered.

### **5. 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.

### **6. E-trailers**

Are retailers providing online buying and selling of products and services.

### **7. Discount stores**

These are factory outlets that give discount on the MRP.

### **8. Vending**

It is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machines.

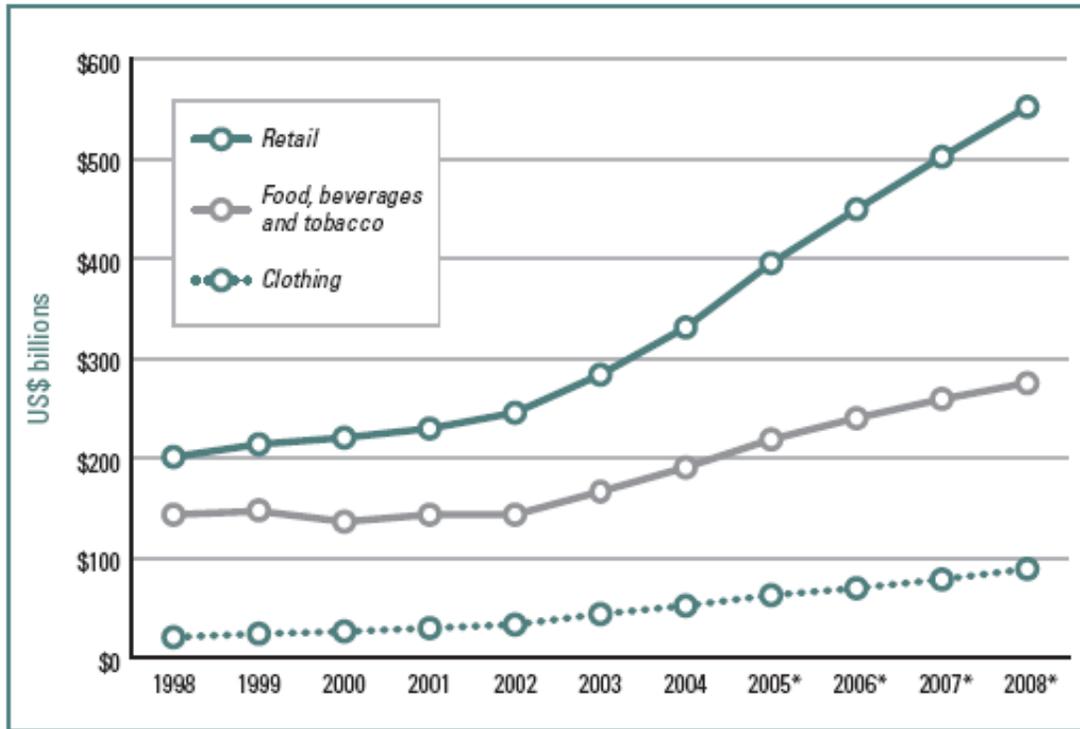
### **9. Category killers**

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.

### **10. 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 examples.

## Retail Sales in India



Sources: Economist Intelligence Unit and A.T. Kearney analysis

\*Data for 2005-2008 is based on estimates

## Key drivers for Retail Growth

### Supply

Players are now moving to Tier II and Tier III cities to increase penetration and explore untapped markets as Tier I cities have been explored enough and have reached a saturation level.

### Demand

Healthy economic growth, changing demographic profile, increasing disposable incomes, changing consumer tastes and preferences are some of the key factors that are driving and will continue to drive growth in the organised retail market in India.

### Barriers to entry

Reforms by India in opening up its economy have greatly improved trade prospects, but major barriers still exist such as regulatory issues, supply chain complexities, inefficient infrastructure, and automatic approval not being allowed for foreign investment in retail. However, some of these issues may be tackled with allowance of FDI in single and multi-brand retail.

### Bargaining power of suppliers

The bargaining power of suppliers varies depending upon the target segment, the format followed, and products on offer. The unorganised sector has a dominant position, still contributing above 90% to the total retail market. There are few players who enjoy an edge over others on account of being established players and enjoying brand distinction. Since it is a capital intensive industry, access to capital also plays an important part for expansion in the space.

### **Bargaining power of customers**

High due to wide availability of choice. With FDI coming in, this is expected to become stronger.

### **Competition**

High. Competition is characterised by many factors, including assortment, products, price, quality, service, location, reputation, credit and availability of retail space etc. New entrants (business houses and international players) including foreign players are expected to further intensify the competition.

## **Challenges for Indian Retail**

### **Efficient Supply Chains**

Highly fragmented supply chains coupled with infrastructure issues and the vast geographical spread of the Indian market pose huge challenges to the retailers. Indian retailers have to enhance their supply chains to succeed in the cost conscious market. Segments such as food and grocery have to cope with very highly unorganised supply chains. Also, the rising customer expectations would necessitate supply chains with quick reaction times.

### **Ability to penetrate rural market**

The urban area has been the focus of Organised Retail which has led to increased competition. Rural India is home to 72 crore consumers across 6 lakh villages. 17 % of these villages account for 50 %<sup>14</sup> The Next Urban Frontier: Twenty Cities to Watch-NCAER *Human Resource and Skill Requirements in the Organised Retail sector* of the rural population as well as 60 % of rural wealth. Hariyali Kisan Bazaars (DCM) and Aadhars (Pantaloon-Godrej JV), ChoupalSagar (ITC), KisanSansars (Tata), Reliance Fresh, and others such as the NayaYug Bazaar have already ventured into the retail market.

### **Leveraging Technology**

The Organised Retail layers have to leverage IT and technology to sustain business growth through innovation and differentiation. A number of retail players like DLF Retail, Khadims, Diamexon Diamonds have expanded their SAP footprints<sup>15</sup> to simplify business processes, reduce costs and adapt to the changing industry landscape. GPS and RFID technology can help in logistics and inventory management.

### **Customised solutions**

The Indian retail market is very heterogeneous in nature. The dynamics for various segments change with the geography and other cultural factors. The challenge for the retailer is to keep this heterogeneous nature of the target market in mind and to balance it with other issues like economies of scale.

### **Investing in retail brand (store brand)**

A strong retail brand is a critical success factor. The retailers should invest in brand building activities which would help them in attracting new customers as well as retaining the existing ones. The strong retail brand will allow the retailers to push through “private labels” which would strengthen their bottom line.

### **Customer Relationship Management (CRM)**

The retailers have to come up with innovative CRM activities to retain their customer base and to add on to their brand value. CRM activities like loyalty programs have been received well by the customers in the past.

### **Future Prospects of Indian Retail**

Retail industry has been on a growth trajectory over the past few years. The industry is expected to be worth US\$ 1.3 bn by 2020. Of this, organized retail is expected to grow at a rate of 25% p.a. A significant new trend emerging in retail sector is the increase in sales during discount seasons. It has been observed over the past few months, that sales numbers in discount seasons are significantly higher than at other times. This is prompting retailers to start discounts earlier and have longer than usual sale season. Also, concepts such as online retailing and direct selling are becoming increasingly popular in India thereby boosting growth of retail sector.

Another crucial structural change is expected to come in the form of implementation of FDI in multi-brand retail. The industry players are strongly in favour of entry of foreign retailers into the country. This will help them in funding their operations and expansion plans. The expertise brought in by the foreign retailers will also improve the way the Indian retailers operate. It is expected to bring in more efficiency in the supply chain functions of retailers. However, fear of loss of business for kiranaawalas is still a cause of concern and is posing hurdles in FDI implementation across country. Ironically, it has been more than a year since the government opened the door for FDI in multi-brand retail. But no international retailer has shown interest in coming to India yet. Hurdles such as requirement of clearance from individual states, mandate of 30% local outsourcing of materials from micro and small enterprises are keeping the investors away from India.

Retail is mainly a volume game, (especially value retailing). Going forward, with the competition intensifying and the costs scaling up, the players who are able to cater to the needs of the consumers and grow volumes by ensuring footfalls will have a competitive advantage. At the same time competition, high real estate cost, scarcity of skilled manpower and lack of infrastructure are some of the hurdles yet to be tackled fully by retailers.

Luxury retailing is gaining importance in India. This includes fragrances, gourmet retailing, accessories, and jewellery among many others. Indian consumer is ready to splurge on luxury items and is increasingly doing so. The Indian luxury market is expected to grow at a

rate of 25% per annum. This will make India the 12th largest luxury retail market in the world.

Rural retailing is another area of prime focus for many retailers. Rural India accounts for 2/5th of the total consumption in India. Thus, the industry players do not want to be left out and are devising strategies especially for the rural consumer. However, players should be ready to face some imminent challenges in rural area. For instance, competition from local mom and pop stores as they sell on credit, logistics hurdles due to bad infrastructure in rural areas, higher inventory expenses and different buying preferences amongst rural population.

## Conclusion

Finally after the study about the organised retail scenario in India , different retail formats, FDI in retail and how it can prove to be a game changer in the organised retail scenario we can safely conclude that organised retail will grow in India and that too at a substantial rate and will prove to be an important pillar for the development of the country and the economy And retail if organised in rural sector also through rural retailing can provide an immense untapped market ready to be catered if approached rightly and in calculated and well planned manner.

## References

- 1) AT Kearney's seventh annual Global Retail Development Index (GRDI), in 2008
- 2) [http://www.indianmba.com/Occasional\\_Papers/OP264/op264.html](http://www.indianmba.com/Occasional_Papers/OP264/op264.html)
- 3) [http://en.wikipedia.org/wiki/Retailing\\_in\\_India#Opposition\\_to\\_retail\\_reforms](http://en.wikipedia.org/wiki/Retailing_in_India#Opposition_to_retail_reforms)
- 4) <http://www.ibef.org/industry/retail-india.aspx>
- 5) <http://www.equitymaster.com/research-it/ctor-info/retail/Retailing-Sector-Analysis-Report.asp>
- 6) <http://www.fibre2fashion.com/industry-article/7/697/organized-retailing-in-india1.asp>
- 7) <http://www.marketline.com/blog/unorganized-retail-in-india-currently-dwarfs-the-organized-retail-channel/>
- 8) Kumar Pawan – “Organized retail sector: future, challenges and opportunities in india”, International Journal of Computing and Business Research(IJCBR)ISSN (Online) : 2229-6166Volume 4 Issue 1 January 2013.

- 9) AkhterShahid, Equbalftekhar –“organized retailing in india – challenges and opportunities” , International Journal of Multidisciplinary Research Vol.2 Issue 1, January 2012, ISSN 2231 5780.
- 10) Deloitte- Indian Retail Market Opening more Doors.
- 11) National Skill Development Corporation – “Human Resource and Skill Requirement in the Organised Retail Sector (2022) – A Report.