

THE FUTURE OF RETAILING INDUSTRY IN INDIA

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ABSTRACT

Indian retail sector is highly fragmented as compared to the developed as well as the other developing countries. This shows a great potential for the organized retail industry to prosper in India, as the market for the final consumption in India is very large. At present the Retail industry in India is accelerating. Though India is still not at an equal pace with other Asian counterparts, India is geared to become a major player in the Retail Market. The fact that most of the developed nations are saturated and the developing ones still not prepared, India secures a great position in the international market.

According to the Global Retail Development Index (GRDI) released by US-based global management consulting firm, A T Kearney, India has emerged as best country amongst 30 emerging markets. This reinforces the fact that trade with India is a golden opportunity to be capitalized upon. Interestingly, Russia clinched the second position, while China settled for the third spot. The report also stated that India has become the most attractive destination for retail investment for the fourth time in five years.

The factor that is presently playing a significant role here is the fact that a large section of Indian population is in the age group of 20-34 with considerably high purchasing power which is the reason for increase in demand resulting in consistent growth in the Retail business.

Though we see lot of promising factors there are challenges which question the future of retail industry. Foreign direct investment is not allowed in retail sector, which can be a concern for many brands. But Franchise agreements circumvent this problem. Along with this regulation, local laws, and real estate purchase restrictions bring up challenges. Other than this lack of integrated supply chain, management, and lack of trained workforce and flux of the market in terms of price and product choice also need to be eliminated.

Key words: Retail, India, future.

1. INTRODUCTION

India is witnessing a retail revolution that is leading the New World Order and taking everyone by surprise. We endeavor to help our clients make the most of this tsunami that is striking our shores. The country's dynamic retail landscape presents a grand opportunity to investors within the country and from across the globe, to use India as a strategic business and consumer hub. With the changing face of retail, the Indian consumer industry is in for radical growth. India is rated among the top 10 FDI destinations. Over the last few years Indian retail has witnessed rapid transformation in many areas of the business by setting scalable and profitable retail models across categories. Indian consumers are rapidly evolving and accepting modern retail formats. There is strong emergence of India specific retail formats irrespective of the size. For example, hypermarkets, supermarkets or convenience stores that are emerging in India today are specifically designed for the Indian consumer. New and indigenized formats such as departmental stores, hypermarkets, supermarkets, specialty and convenience stores, and malls, multiplexes and fun zones are fast dotting the retail landscape.

1.1 DEFINITION OF RETAIL

In 2004, The High Court of Delhi defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). *A sale to the ultimate consumer.*

Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and

distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

1.2 DIVISION OF RETAIL INDUSTRY

The retail industry is mainly divided into: - 1) Organised and 2) 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 *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc.

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

2. OBJECTIVES OF THE STUDY

The study concentrates basically on

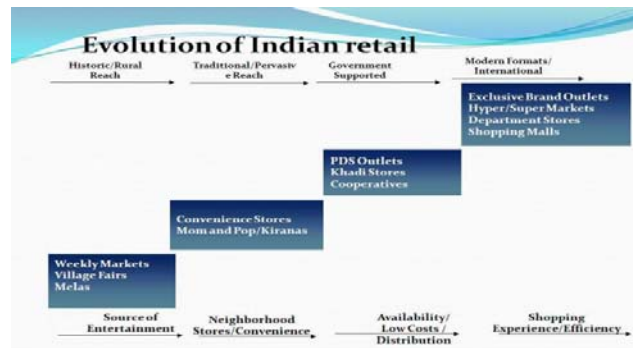
- The future of retail industry in India.
- The FDI policy in the retail sector.

3. RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN: The Descriptive research design has been used for the study of 'Indian brands in the global market' Where effort was made to clearly explain what is branding, its importance in today's competitive world, where are Indian brands standing in the global market in terms of its performance, image etc.,

3.2 DATA COLLECTION: The data is collected by using various secondary sources such as Journals, Magazines, Newspapers, text books & internet.

4. EVOLUTION OF RETAIL STORES IN INDIA



Source: <http://navneetsinghchauhan.blogspot.in/2010/10/new-phase-of-indian-retail.html>

Indian retail is second basic sector after agriculture in India and it employees 7% of the population. Though you find the urban outlook of the retail stores, the traditional stores have not lost their identity in the present scenario also. The above fig. tells us how our retail stores has undergone change and evolved in new format.

4.1 FORMAT OF INDIAN RETAIL STORES

MOM-AND-POP STORES

These are generally family-owned businesses catering to small sections of society. They are small, individually run and handled retail outlets.

CATEGORY KILLERS

Small specialty stores have expanded to offer a range of categories. They have widened their vision in terms of the number of categories. They are called category killers as they specialize in select fields.

DEPARTMENT STORES

These are the general merchandise retailers offering various kinds of quality products and services. These do not offer full service category products and some carry a selective product line. These stores have further categories, such as home and décor, clothing, groceries, toys, etc.

MALLS

These are the largest form of retail formats. They provide an ideal shopping experience by providing a mix of all kinds of products and services, food and entertainment under one roof.

SPECIALTY STORES

The retail chains, which deal in specific categories and provide deep assortment within the category in them are specialty stores.

DISCOUNT STORES

These are the stores or factory outlets that provide discount on the MRP items. They focus on mass selling and reaching economies of scale or selling the stock left after the season is over.

WEDDING MALLS

A box-office phenomenon in India, wedding malls stock everything from clothes, accessories, jewellery to the paraphernalia that builds the grand picture that is the Great Indian Wedding.

KHADI PLAZAS

Khadi Plaza were launched by the Khadi and Village Industries Commission, a Government of India enterprise which occupies a unique position in India's rural economy by contributing towards economic strength and by utilising untapped resource and significant manpower. Rural and tribal handicrafts are packaged to woo the the attention of urban lifestyles and attitudes.

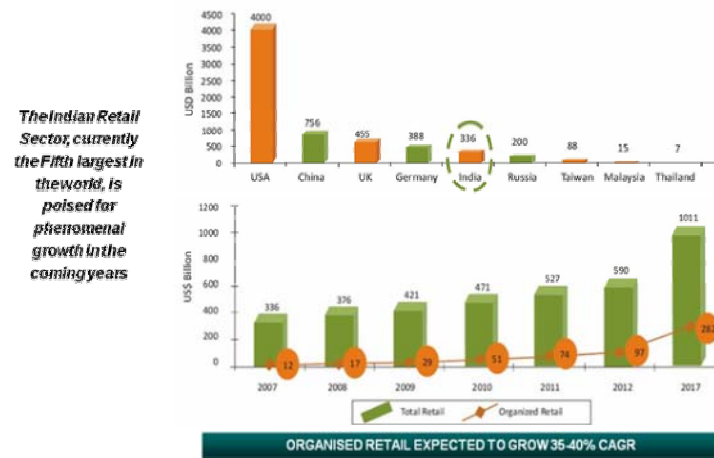
4.2 GROWTH OF RETAIL INDUSTRY IN INDIA

The Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organised retailing formats. The industry is moving towards a modern concept of retailing. The size of India's retail market was estimated at US\$ 435 billion in 2010. Of this, US\$ 414 billion (95% of the market) was traditional retail and US\$ 21 billion (5% of the market) was organized retail. India's retail market is expected to grow at 7% over the next 10 years, reaching a size of US\$ 850 billion by 2020. Traditional retail is expected to grow at 5% and reach a size of US\$ 650 billion (76%), while organized retail is expected to grow at 25% and reach a size of US\$ 200 billion by 2020.

The US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets.

As India's retail industry is aggressively expanding itself, great demand for real estate is being created. The cumulative retail demand for real estate across India is expected to reach 43 million square feet by 2013. Around 46 per cent of the total estimated demand between 2009 and 2013 will be come from Tier-1 cities. For instance, Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future.

PHENOMENAL GROWTH OF THE RETAIL SECTOR



4.5 TOP RETAIL PLAYERS IN INDIA:

1. **Pantaloon Retail Ltd, a Future group venture:** Over 12 million sq. ft. of retail space spread over 1,000 stores, across 71 cities in India.
2. **Shoppers Stop Ltd:** Over 1.82 million sq. ft. of retail space spread over 35 stores, in 15 cities.
3. **Spencer’s Retail, RPG Enterprises:** Retail footage of over 1.1 million sq. ft. with approx 250 stores, across 66 cities.
4. **Lifestyle Retail, Landmark group venture:** Has approximately 15 lifestyle stores and 8 Home centres. Other major domestic players in India are Bharti Retail, Tata Trent, Globus, Aditya Birla ‘More’, and Reliance retail.

5. FDI

5.1 FDI POLICY IN INDIA

FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (‘RBI’) in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (‘FIPB’) would be required.

5.2 FDI POLICY WITH REGARD TO RETAILING IN INDIA

- FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of ‘Single Brand products.
- FDI is not permitted in Multi Brand Retailing in India.

5.3 FDI IN SINGLE BRAND RETAIL

In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned that

- Only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed),
- Products should be sold under the same brand internationally,
- Single-brand product retail would only cover products which are branded during manufacturing and
- Any addition to product categories to be sold under “single-brand” would require fresh approval from the government.

5.4 FDI IN MULTI BRAND RETAIL

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper doesn’t suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ‘*kirana*’ store.

6. CHALLENGES

Some of the key challenges faced by the sector are:

- a) **Shortage of skilled manpower** - There are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited. Further, retail training opportunities in areas like merchandising, supply chain and so on are limited. The condition is more alarming in the unorganized sector where the manpower is not equipped with even the basic level of retail specific and customer service skills, which adds to their incompetence in the organized sector. A cohesive effort to develop skills within the sector can have a significant potential impact on productivity and competitiveness, both within the sector and on the wider economy.
- b) **Lack of industry status** - Due to the absence of 'industry status', organized retail in India faces difficulties in procurement of organized financing and fiscal incentives. The Government should grant the much needed 'industry status' to the sector so that the sops that come with it help promote both big & small retailers.
- c) **Policy induced barriers** – Organized retail in India is managed by both the Ministries of Commerce & Consumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislations. There is a need to govern retail operations through a single apex body. A single agency can take care of retail operations more effectively, especially with regard to addressing the grievances of retailers. The development of the retail sector can take place at a faster pace if a comprehensive legislation is enacted.
- d) **Real estate** - Lack of sophisticated retail planning is another major challenge the sector faces. Available space is easily interchangeable between commercial and retail use. In most cities, it is difficult to find suitable properties in central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation.
- e) **Infrastructure** - There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general.

7. THE FUTURE OF RETAILING

Organized retail is a new phenomenon in India and despite the downturns, the market is growing exponentially, as economic growth brings more of India's people into the consuming classes and organized retail lures more and more existing shoppers into its open doors. By 2015, more than 300 million shoppers are likely to patronize organized retail chains. The growing middle class is an important factor contributing to the growth of retail in India. By 2030, it is estimated that 91 million households will be 'middle class', up from 21 million today. Consumer markets in emerging market economies like India are growing rapidly owing to robust economic growth. India's modern consumption level is set to double within five years to US\$ 1.5 trillion from the present level of US\$ 750 billion. Thus, with tremendous potential and huge population, India is set for high growth in consumer expenditure. With India's large 'young' population and high domestic consumption, the macro trends for the sector look favorable.

Online retail business is another format which has high potential for growth in the near future. The online retail segment in India is growing at an annual rate of 35 per cent, which would take its value from Rs 2,000 crore (US\$ 429.5 million) in 2011 to Rs 7,000 crore (US\$ 1.5 billion) by 2015. For instance the Tata Group firm Infiniti Retail, that operates its consumer durables and electronics chain of stores under the 'Croma' brand, is in the process of tapping net savvy consumers. Similarly, the Future Group, that operates a dedicated portal 'Futurebazaar.com' for online sales, has revealed that it is targeting at least 10 per cent of the company's total retail sales through the digital medium.

8. CONCLUSION

Though the picture of retailing in India is blue our unorganized retailing accounts for the majority. Organised retailing is still in its infancy stage and once the FDI policies are liberalized our sector can face tough competition from the well established Western counterparts. In spite of all these the future will be bright because the Indian consumer has got used to our retail stores. Reconstituting the poverty stricken and stagnating rural sphere into a forward moving and prosperous rural sphere can be one of the justifications for introducing FDI in multi-brand retailing. To actualize this goal it can be stipulated that at least 50% of the jobs in the retail outlet should be reserved for rural youth and that a certain amount of farm produce be procured from the poor farmers. Similarly to develop our small and medium enterprise (SME), it can also be stipulated that a minimum percentage of manufactured products be sourced from the SME sector in India. Finally I would like to say that if

development happens in organized retail, we can expect bright future for our youth who are not highly qualified.

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