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CHALLENGES FOR ORGANIZED RETAILING IN INDIA**VEENU JAIN****ASST. PROFESSOR****DEPARTMENT OF COMMERCE & MANAGEMENT****KAMLA LOHTIA SANATAN DHARAM COLLEGE****LUDHIANA****ABSTRACT**

After the entrance of ecommerce in India, the phase of retail industry has changed drastically. Retailing is 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. The Indian Retail sector has come off age and has gone through major transformation over the last decade with a noticeable shift towards organised retailing. The retail market is expected to reach a whopping Rs. 47 lakh crore by 2016-17, as it expands at a compounded annual growth rate of 15 per cent, according to the 'Yes Bank - ASSOCHAM' study. The retail market, (including organised and unorganised retail), was at Rs. 23 lakh crore in 2011-12. According to the study, organised retail, that comprised just seven per cent of the overall retail market in 2011-12, is expected to grow at a CAGR of 24 per cent and attain 10.2 per cent share of the total retail sector by 2016-2017.

KEYWORDS

retailing, organised retail sector.

INDIAN RETAIL INDUSTRY

Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. India has highest number of outlets per person (7 per thousand) Indian retail space per capita at 2 sq ft (0.19 m²) / person is lowest in the world Indian retail density of 6 percent is highest in the world. 1.8 million households in India have an annual income of over 4.5 million (US\$66,555.00) The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. Now with growing market demand, the industry is expected to grow at pace of 25-30% annually. The Indian retail industry is currently growing at a great pace and is expected to go up to US \$ 833 billion by the year 2013. In the last four years' consumer spending in India has climbed up to 75%. In India though, organized retail accounts for app. 5-6% of total retail revenues, however, with a young population, increasing disposable income, changing life styles and a robust economy India is set to emerge as one of the fastest growing organized retail markets in the world. Organized 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. Unorganized retailing, on the hand, refers to the traditional formats of low cost retailing.

Modern retailing formats in retail sector in India are becoming popular now a day. This is the sector which shows the maximum potential yet to be explored because, still 97-98% of total retail industry lies with unorganized sector. It means yet domestic as well as international organized retailers have the unexplored potential in Indian economy. Yet modern retailing is going through transition in India, upcoming modern formats have to face a very tough competition from traditional formats. People are not ready to give up habits and mind set for traditional mom and pop shop. And on the other hand, an ever-going variety of institutions, constantly buffeted by a highly fluid environment leads the unorganized sector to be fiercely competitive and innovatively oriented.

OBJECTIVES OF THE STUDY

1. To study the emerging retail formats in India
2. To study the growth trends of Indian retail sector
3. To study the challenges in the growth of organized retail sector

RESEARCH METHODOLOGY

This paper is based on secondary data and Information has been sourced from various books, trade journals, government publications, newspapers etc

RETAIL FORMATS IN INDIA

Hyper Marts/ Super Markets: large self – servicing – outlets offering products from a variety of categories. Examples like Spencer's, Big Bazaar.

Mom-and –pop Stores: they are family owned business – catering to small sections; they are individually handled retail outlets and have a personal touch.

Departmental Stores: are general retail merchandisers – offering quality products and services. Examples like Ebony, Shopper's Stop, Westside.

Convenience Stores: are located in residential areas – with slightly higher prices goods due to the convenience offered. Examples like in&Out, Safal, 6ten.

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.

E-trailers: are retailers providing online buying and – selling of products and services.

Discount Stores: these are factory outlets that give – discount on the MRP. Examples like Subhiksha, Koutons, Nike, and Levis.

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

Specialty Stores: are retail chains dealing in specific – categories and provide deep assortment. Mumbai's Crossword Book Store and RPG's Music World is a couple of examples.

CHALLENGES IN THE GROWTH OF ORGANIZED RETAIL SECTOR

RETAIL NOT BEING RECOGNIZED AS AN INDUSTRY IN INDIA – Lack of recognition – as an industry hampers the availability of finance to the existing and new players. This affects growth and expansion plans.

THE HIGH COSTS OF REAL ESTATE – Real estate prices in some cities in India are – amongst the highest in the world. The lease or rent of property is one of the major areas of expenditure; a high lease rental reduces the profitability of a project.

HIGH STAMP DUTIES – In addition to the high cost of real estate the sector also faces very high stamp duties on transfer of property, which varies from state to state (12.5% in Gujarat and 8% in Delhi). The problem is compounded by problems of clear titles to ownership, while at the same time land use conversion is time consuming and complex as is the legal process for settling of property disputes.

LACK OF ADEQUATE INFRASTRUCTURE - Poor roads and the lack of a cold chain – infrastructure hampers the development of food and grocery retail in India. The existing supermarkets and foods retailers have to invest a substantial amount of money and time in building a cold chain network.

MULTIPLE AND COMPLEX TAXATION SYSTEM – The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi point control with the introduction of value Added Tax (VAT) in 2005. There is price war between different retail organizations. Each and every one is saying to provide goods at low cost and offers various promotional schemes. In such a case it is difficult to keep one's customers with oneself.

Supply-chain inefficiencies -Supply chain needs to be efficiently-managed because it has a direct impact on the company's bottomlines. Presently the Indian organised retail has an efficient supply chain but it appears efficient only when compared with the unorganised sector. On an international level the Indian organised retailers fall short of international retailers like Wal-Mart and Carrefour in terms of efficiencies in supply chain. Following are some key challenges that the retailers face during procuring goods from suppliers to delivering the same to end-customers are discussed.

- Inventory management is the first challenge that retailers face at the local store level as well as at the warehouse level.
- Logistics is another challenge related to the supply chain. It is imperative for any organised food and grocery retailer to establish a robust cold chain. Amul is the best example of this scenario, as it has developed a cold storage chain across India.
- The third challenge related to the supply chain is procurement. Big organised retailers enjoy economies of scale based on their size and expansion plans. The economical benefits of scale in procurement are achieved when procurement is made in thousands or millions of units; however, the main challenge here is to procure adequate amount of stock according to customer requirements, failing which the resultant rise in inventory can affect bottomlines.

Challenges with respect to human resources - The Indian organised retail players shell out more than 7% of sales towards personnel costs. The high HR costs are essentially the costs incurred on training employees as there is a severe scarcity for skilled labour in India. The retail industry faces attrition rates as high as 50%, which is high when compared to other sectors also. Changes in career path, employee benefits offered by competitors of similar industries, flexible and better working hours and conditions contribute to the high attrition.

Shrinkage - Retail shrinkage is the difference between the book value of stock and the actual stock or the unaccounted loss of retail goods. These losses include theft by employees, administrative errors, shoplifting by customers or vendor fraud. According to industry estimates, nearly 3-4% of the Indian chain's turnover is lost on account of shrinkage. The organised industry players have invested IT, CCTV and antennas to overcome the problem of shrinkage.

Global economic slowdown impacting consumer demand - The current contraction in overall growth has not been so severe ever since the one witnessed during World War II. The sub prime-triggered crisis in the US during end of 2007 gradually spread across other parts of the world; as a the fallout of this crisis, credit availability dropped sharply in advanced economies and their GDP growth contracted incessantly during the last quarter of 2008. The financial crisis continued to trouble advanced and developing economies in spite of policymakers' attempts to replenish liquidity in these markets. Many financial institutions collapsed and filed for bankruptcy, as the situation got from bad to worse. Many banks/institutions made massive write-downs following this turn of events. During 2007-10, the write-downs on global exposures are expected to be worth US\$ 4 trillion while the write downs on the US-originated assets alone are likely to be worth US\$ 2.7 trillion¹¹. Such massive write-down will affect the financial system to a grave extent, as it is likely to further strain banks' funding capabilities. Already these write-downs are turning into a major challenge for banks/financial institutions because of solvency issues, and deepening risk of failure of banks/ financial institutions. Failure of the US investment bank Lehman Brothers, for instance, has had an enormous impact on the overall global financial system, and has consequently shaken the confidence of banks, investors, households etc.

According to IMF's World Economic Outlook (Apr 2009), the global GDP contracted by 1.8% in the first quarter of 2009 as compared with the 4.5% growth recorded during the same period in the previous year. Likewise, the advanced economies witnessed contraction in GDP growth (by 1.7%) during the last quarter of 2008 while the US, Euro area and Japan witnessed a recessionary trend¹². According to IMF estimates, the world GDP will continue to contract by 2.4% during the third quarter of 2009. Going ahead, policymakers face a daunting task as they need to put back things as early as possible; according to IMF's World Economic Outlook (Apr 2009), the world economy is expected to recover gradually only in 2010 by 1.9%, by corroborating demand, with appropriate monetary and fiscal measures.

Consumption declines in the advanced economies Private consumption expenditure is an important indicator of overall economic growth. In the last couple of quarters, the decline in consumption has further affected the global economic downturn. Moreover, widespread financial crisis severely hit credit availability and household disposable income. For instance, US households lost 20% (US\$ 13 trillion)¹⁴ of their net worth as a percentage of disposable income from the second quarter of 2007 to the fourth quarter of 2008. The stock prices across the world started falling during the second quarter of 2007 and continued its losses throughout 2008; the global stock markets lost between 40-60% in dollar terms that translated to a huge loss of global wealth in 2008. The personal disposable income (at current prices) in the US registered negative growth (3.9% and 2.1%) during the last two quarters of 2008, respectively. The consumer demand situation was aggravated further by reduced capital availability and consequent fall in investments.

Price War- There is a price war between different retail organizations. Every one is saying to provide goods at low cost and offers various promotional schemes. In such a case it is difficult to keep one's customers with oneself.

Channel Conflicts: Globally, retailers maintain a direct relationship with their suppliers. Due to the complex taxation structure and geographical spread of the country, most FMCG companies have developed regional distribution and re-distribution network. Cutting out the distribution network will hurt the operating structure of distributors. ¹⁰.

Unique Indian Customer: The Indian consumer experiencing modern retail has now warmed up to this idea. Buying habits have still not changed, where people prefer to buy most of the fruits and vegetables on a daily basis. The Indian consumers have a strong preference for freshly cooked food over packaged. Food mainly attributed to dietary patterns, poor electricity supply, low penetration of refrigerators and a family structure where one of the primary roles of the housewife's is feeding the family. There is also an impact on the basket size because of non-availability of personal transport facilities, due to which the consumers prefer to buy smaller quantities from stores conveniently located near their homes.

CONCLUSION

It can be concluded that after the entrance of ecommerce in India, the phase of retail industry has changed drastically. Retailing is 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. The Indian Retail sector has come off age and has gone through major transformation over the last decade with a noticeable shift towards organised retailing. The retail market is expected to reach a whopping Rs. 47 lakh crore by 2016-17, as it expands at a compounded annual growth rate of 15 per cent, according to the 'Yes Bank - ASSOCHAM' study. The retail market, (including organised and unorganised retail), was at Rs. 23 lakh crore in 2011-12. According to the study, organised retail, that comprised just seven per cent of the overall retail market in 2011-12, is expected to grow at a CAGR of 24 per cent and attain 10.2 per cent share of the total retail sector by 2016-2017.

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