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INDIAN RETAIL INDUSTRY: AN ANALYSIS

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ABSTRACT

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 change of taste and preferences of consumers, the Industry is getting more popular these days and getting organized as well. The Indian retail industry has expanded by 10.6 per cent between 2010 and 2012 and is expected to increase to US\$ 750-850 billion by 2015, according to the report by Deloitte. Food and Grocery is the largest category within the retail sector with 60 per cent share followed by the Apparel and Mobile segment. This paper includes growth of retail sector in India, Expected Future Trends, Retail Formats in India, recent trends, opportunities of retail stores, and future of this sector. It also highlights the challenges faced by the industry in near future.

KEYWORDS

Indian retail industry, organized Sector, unorganized Sector.

INTRODUCTION

India has witnessed a revolution in the last two decades owing to rapid urbanization and changing consumption. This has led retailers to concentrate their energies and leverage their capacities to harness the potential. The entry of the leading corporate houses into retail created a surge into the growth of the industry including some renowned business groups like Bharti, Future, Reliance, and Aditya Birla to establish hold, showing the future growth in times to come. In addition, organized retail sector has also grabbed the attention of foreign companies, showing their interest to enter India. Retailing is one of the largest industry in India and one of the biggest sources of employment in the country. Retailing is one of the pillars of the Indian economy. Over the past few years, the retail sale in India is hovering around 33-35% of GDP as compare to 20% in the US. 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. 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 other hand, refers to the traditional formats of low cost retailing, for example, the local kirana shops, owner manned general stores, convenience stores, hand cart and pavement vendors etc.

GROWTH OF RETAIL INDUSTRY IN INDIA

An increasing number of people in India are turning to the services sector for employment due to the relative low compensation offered by the traditional agriculture and manufacturing sectors. The organized retail market is growing at 3.5 percent annually while growth of unorganized retail sector is pegged at 6 percent. The Retail Business in India is currently at the point of inflection. Rapid change with investments to the tune of US \$ 25 billion is being planned by several Indian and multinational companies in the next 5 years. It is a huge industry in terms of size and according to management consulting firm Techno Park Advisors Pvt. Ltd., it is valued at about US \$ 350 billion. Organized retail is expected to garner about 16-18 percent of the total retail market (US \$ 65-75 billion) in the next 5 years. According to the tenth report of GRDI of AT Kearney, India is having a very favorable retail environment and it is placed at 4th spot in the GRDI. The main reasons behind that is the 9% real GDP growth in 2010, forecasted yearly growth of 8.7% through 2016, high saving and investment rate and increased consumer spending. According to report, organized retail accounts for 7% of India's roughly \$435 billion retail market and is expected to reach 20% by 2020. Food accounts for 70% of Indian retail, but it remains under penetrated by organized retail. Organized retail has a 31% share in clothing and apparel and continues to see growth in this sector. A report by Boston Consulting Group has revealed that the country's organized retail is estimated at US \$ 28 billion with around 7% penetration. It is projected to become a US \$ 260 billion business over the next decade with around 21% penetration. The analysts believe that the sector is likely to show significant growth of over 9% over the next ten years and also see rapid development in organized retail format with proportion likely to reach more respectable 25% by 2018. The BMI India Report for the first quarter of 2012 released forecasts that total retail sales with growth from US \$ 422.09 billion in 2011 to US \$ 825.46 billion by 2015. The report highlights strongly underlying economic growth, population expansion, increasing disposable income and rapid emergence of organized retail infrastructure as major factors behind the forecast growth. According to department of Industry Policy and Promotion Cumulative, FDI inflows in single brand retail trading stood at US\$ 44.45 million during April 2000 to September 2011. Indian retail sector is wearing new clothes and with a three year compounded annual growth rate of 46-64%, retail is the fastest growing sector in the Indian economy. The sector is the second largest employer after agriculture, employing more than 35 million people with wholesale trade generating an additional employment to 5.5 million crore. The enormous growth of retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace.

According to report titled "India Organized Retail Market 2010", published by Knight Frank, during 2010-12, around 55 million square feet of retail space will be ready in Mumbai, NCR, Bangalore, Kolkata, Chennai, Hyderabad and Pune. Besides between 2010 and 2012 the organized retail real estate will be grown from existing 41 million square feet to 95 million square feet. The total no. of shopping mall is expected to expand at CAGR of 18.9% by 2015. Hypermarket, currently accounting for 14% of mall space is expected to witness high growth. Industry experts predict that the next phase of growth in the retail sector will emerge from the rural market. By 2012, the rural retail market is projected to have a total of more than 50% market share. India's retail market is expected to be worth about

US\$ 410 billion, with 5 per cent of sales through organized retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly—up to US\$ 535 billion in 2013, with 10 per cent coming from organized retail, reflecting a fast-growing middle class, demanding higher quality shopping environments and stronger brands, according to the report 'Expanding Opportunities for Global Retailers', released by A T Kearney

TABLE – I: SHARE OF RETAIL TRADE IN GROSS DOMESTIC PRODUCT (G.D.P.)

Year	% share of Retail Sector
2007	8%
2009	12%
2011	22%

Some of The Key Players in The Indian Retail Market, With A Dominant Share are:

1. Pantaloon Retail Ltd, a Future group venture: Over 12 mn sq. ft. of retail space spread over 1,000 stores, across 71 cities in India.
2. Shoppers Stop Ltd: Over 1.82 mn sq. ft. of retail space spread over 35 stores, in 15 cities.
3. Spencer's Retail, RPG Enterprises: Retail footage of over 1.1 mn 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. Some of the major foreign players who have entered the segment in India are:-

- Carrefour which opened its first cash-and-carry store in India in New Delhi.
- Germany-based Metro Cash & Carry which opened six wholesale centres in the country.
- Walmart in a JV with Bharti Retail, owner of Easy Day store—plans to invest about US\$ 2.5 billion over the next five years to add about 10 million sq. ft. of retail space in the country.
- British retailer Tesco Plc (TSCO) in 2008 signed an agreement with Trent Ltd. (TRENT), the retail arm of India's Tata Group, to set up cash-and-carry stores.
- Marks & Spencer's have a JV with Reliance retail.

TRENDS IN THE RETAIL INDUSTRY

- Emergence of organized retail: Real estate development in the country, for example, the construction of mega malls and shopping malls, is augmenting the growth of the organized retail business.
- Spending capacity of youth of India: India has a large youth population, which is a conducive environment to growth of this sector.
- Raising incomes and purchasing power: The per capita income in India has doubled between 2000-01 and 2009-10 resulting in improved purchasing power.
- Changing mindset of customers: The customer mind set is gradually shifting from low price to better convenience, high value and a better shopping experience.
- Easy customer credit: Emergence of concepts such as quick and easy loans, EMIs, loan through credit cards, has made purchasing possible for Indian consumers, for products such as consumer durables.
- Higher brand consciousness: There is high brand consciousness among the youth; 60% of India's population is below the age of 30 leading to popularization of brands and products.

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 few examples.

THE FUTURE OF RETAIL SEGMENT IN INDIA

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. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States 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.

EXPECTED FUTURE TRENDS IN THE RETAIL SEGMENT IN INDIA

- A. *FDI in Specialty Stores*: Multi-brand organized retail in specialty stores such as Consumer Electronics, Footwear, Furniture and Furnishing etc. are expected to expand and mature in the next few years. However the policy condition on sourcing will continue to be a major bottleneck for FDI in many of these segments.
- B. *Dominance of Unorganized Retail*: Flexible credit options and convenient shopping locations will help traditional retail to continue its dominance in the retail sector.
- C. *Growth in Small Cities and Towns*: Stiff competition and saturation of urban markets is expected to drive domestic retail players to tap the potential in small cities.

OPPORTUNITIES

Retail marketing gets various opportunities to grow up in the Indian market. Not only retailing but Manufacturers as well as suppliers, and buyers have various opportunities, some of which are mentioned below-

- *What is in Store*- Organized retail provides brands much needed visibility and platform for customer interaction. It also helps in launching of new product or product variant and in market penetration. It has wider product range and more frequent, speedier deliveries.
- *Urbanization* – Increased urbanization has shifted consumers to one place and thus a single retail can catch more customers.
- *Nuclear Family*- As the time passed away joint families came in a new form i.e. nuclear family. Again the income level of these nuclear families increases because both members started earning. This results into increased power of purchase and lack of time. Now they want everything under one roof. This brought the concept of organized retailing.
- *Plastic Revolution* – Increased use of credit cards is in favor of retail marketing. It creates requirement even when it is not necessary.
- *Employment* - Retail marketing is one of the largest employments generating industry. It provides employment to skilled, semi-skilled as well as to unskilled persons. Thus it helps in the socio- economic development of the society.
- *Price War* – Increase in the no of retail outlets increases competition among these retailers. To attract customers they give various promotional schemes as various discounts, buy one get one free, another product with any particular product, festival special, etc.
- *Contract Farming* – The retail marketers directly purchase from farmers and reducing middlemen, thus provide proper cost to farmers and also set proper price for consumers. They also make contract with farmers to get proper amount of crops and vegetables.
- *Reduces Supply Chain Management* - The big players of retail marketing and the manufacturing companies directly come in contact thus reducing many intermediary chains. Manufacturers also give many promotional schemes for their product that is beneficial for consumers.

CHALLENGES

Some of the key challenges faced by the sector are:

- 1) Shortage of skilled manpower - Front-end/retail assistant profiles in stores form a major proportion of the employment in the retail sector while store operations account for 75-80% of the total manpower employed in the organized retail sector. Unfortunately, there are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited. Further, retail training opportunities such as niche courses for 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 vis-à-vis 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.
- 2) 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 helps promote both big & small retailers.
- 3) 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.
- 4) 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 disputes between owners.
- 5) International Standards: Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.

SWOT ANALYSIS**Strength**

- Demographic favor
- Rising disposable income
- Increase in number of people in earner category.
- Urbanization
- Shopping convenience
- Low labor cost of skilled ones.
- Changing Consumer habits and Lifestyles.
- Plastic card revolution.
- Greater availability of quality retail space.

Weakness

- Policy related issues- lack of industry status for retail:- numerous license, permits and registration requirement.-farmer and retailer unfriendly APMC act.
- Limited consumer insight-lack of detailed region specific customer data.-less data on spending pattern.
- inadequate human resources-lack of trained personnel at all level.-stringent employment and industry laws.-fragment approach to human resources
- Taxation hurdle-inconsistent octroi and entry tax structure.-vat and multiple taxation issues.-large grey market presence.
- Underdeveloped supply chain-underdeveloped logistics infrastructure.-absence of national cold chain networks.-lack of national distribution networks and hubs
- Lack of adequate utilities- lack of basic infrastructure like power, transport and communication creates difficulty in sustaining retail operations across the large geographical spread of country.

Opportunities

- Potential for investment.
- Locational advantage.
- Sectors with high growth potential.
- Fastest growing formats.
- Rural retail.
- Wholesale trading.
- Falling real estate cost
- E-retailing
- Retail franchising

Threats

- Political issues.
- Social issues.
- Inflation.

- Nostalgia
- Lack of differentiation among the malls that are coming.
- Poor inventory turns and stock availability measures.

CONCLUSION

Retailing is one of the largest industry in India and one of the biggest sources of employment in the country. Numerous business groups are attracted in the past few years, including some renowned business groups like Bharti, Future, Reliance, and Aditya Birla to establish hold, showing the future growth in times to come. In addition, organized retail sector has also grabbed the attention of foreign companies, showing their interest to enter India. After looking up these facts, the paper strategically analyzed the Indian retail Industry. The results of the study depict that infrastructure, economic growth and changing demographics of consumers are the major driver of organized retail in India. The location of the retail store, management style and adequate salaries to personnel enhance the effectiveness of retail business and are important factors for retailers' success. The paper further reveals on the basis of SWOT analysis that emerging retail formats, increasing awareness and innovation in new products are the strengths and opportunities of organized retail in India. On the other hand, inadequate human resources, taxation hurdle, underdeveloped supply chain, Political issues, Social issues and Inflation are some of the threats and weaknesses of Indian retail Industry. Hence, there is an urgent need to overcome the threats and weaknesses and grab the opportunities by retailers for the success of retail sector in India.

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