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ADVENT OF THE RETAIL SECTOR IN INDIAN ECONOMY: A PERSPECTIVE ACROSS DECADE

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ABSTRACT

In the last decade investors are focusing attention on investing in emerging economies that are particularly high growth potential economies. The focus of retailers is on constructing a basket of markets with different market synergies. Indian retail sector offers the opportunities to the investors due to economic liberalization, political willingness, and demographic changes in the urban population. This paper is a part of a detailed study of the retail sector and emergence of formats of retailing that are been witnessed in India. This is an attempt to sensitize the recent growth and development in the sector within the past decade. It has been framed by fetching data for the growth of retail sector, formats, changing consumer preferences and ever evolving responses to consumers towards this dynamic sector in India. It is a secondary databased paper.

KEYWORDS

retail, growth of retail, retail formats, consumer behavior.

INDIAN RETAIL MARKET & SCENARIO

Indian economy has witnessed phenomenal growth during the last decade (2005 onwards)⁽¹⁾. The country is among one of the fastest growing economies with an impressive average growth. The real gross domestic product (GDP) stood at 6.9 percent in 2009-2010. The GDP growth for 2010-2011 is 7.1 percent. Growing at a compounded annual growth rate (CAGR) of 15 per cent overall retail market in India including both organized and unorganized sectors is likely to reach a whopping Rs 47 lakh crore by 2016-17 from the level of Rs 23 lakh crore recorded in 2011-12, according to a joint study by apex industry body ASSOCHAM and Yes bank.

⁽⁵⁾In the early decade, organized retail, constituted a meagre 7% cent of total retail in 2011-12 & is estimated to grow at a CAGR of 24 per cent and attain 10.2 per cent share of total retail by 2016-17. In value terms the modern trade stores are expected to increase by 13% in 2013-19.

RETAIL MARKET SIZE IN INDIA

⁽⁶⁾India's retail market is expected to nearly double to us\$ 1 trillion by 2020 from us\$ 600 billion in 2015, driven by income growth, urbanization and attitudinal shifts. The number of super markets are expected to increase to 8500 by 2016.

The overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent.

Retail spending in the top seven Indian cities amounted to Rs 3.58 trillion (us\$ 57.6 billion), with organized retail penetration at 19 per cent as of 2014. Online retail is expected to be at par with the physical stores in the next five years.

India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. India's e-commerce market is estimated to expand to over us\$ 100 billion by 2020 from us\$ 3.5 billion in 2014.

LANDSCAPE OF RETAIL SPACE AND PENETRATION IN INDIA

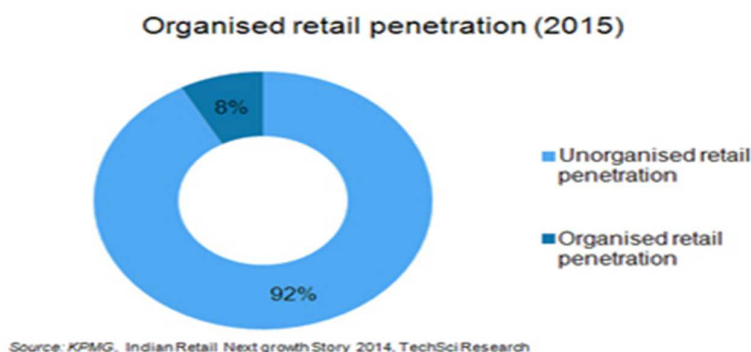
FIGURE 1: KPMG, INDIAN RETAIL GROWTH STORY 2014, TECHSCI RESEARCH^[SS1]

Figure 1 depicts the penetration of organized and unorganized retail sector of the Indian market of the year 2015. With only 8% share of organized retail penetration in the year 2015, the growth of the sector is attributed to the various demographic changes in the composition of the population.

THE DRIVERS OF RETAIL GROWTH IN INDIA

⁽³⁾ 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\$75,150.00).

While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90% of trade is conducted through independent local stores. Challenges include: geographically dispersed population, small ticket sizes, complex distribution network, and little use of IT systems, limitations of mass media and existence of counterfeit goods. A number of merger and acquisitions have begun in Indian retail market. PWC estimates the multi-brand retail market to grow to \$220 billion by 2020.

Both organized and unorganized retail are bound not only to coexist but also achieve rapid and sustained growth future. The drivers for retail growth are favorable demographics, increasing urbanization, nuclearization of families, rising affluence amid consumers, growing preference for branded products, credit availability and higher aspirations for quality products, emergence of new categories are augmenting the retail market to the next level.

Along with the demand aspect the supply side of retail growth is being supported by expansion plans of existing players and the entry of new players various formats changes and evolution as well as due to rising number of tier-2 and tier-3 cities. These factors will further give rise to increasing supermarket space, which will finally lead to rise in number of larger formats in the retail sector. It is estimated that ⁽²⁾ by 2018 it is predicted that the Indian retail sector is bound to change at a CAGR of 13 per cent to fulfil US\$ 950 billion.

REFORMS OVER THE LAST DECADE

- ⁽²⁾India in 1997 allowed foreign direct investment (FDI) in cash and carry wholesale. Then, it required government approval. The approval requirement was relaxed, and automatic permission was granted in 2006.
- Between 2000 to 2010, Indian retail attracted about \$1.8 billion in foreign direct investment, representing a very small 1.5% of total investment flow into India.
- Single brand retailing attracted 94 proposals between 2006 and 2010, of which 57 were approved and implemented. One of the primary restraint inhibiting better participation was that India required single brand retailers to limit their ownership in Indian outlets to 51%.
- The organized retail market in 2007 was growing at 35 percent annually while growth of unorganized retail sector was pegged at 6 percent.
- Organized retail is expected to garner about 16-18 percent of the total retail market (US\$65–75 billion) up till 2013.
- In 2011 Indian retail market as generating sales of about \$470 billion a year, of which a minuscule \$27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls.
- 25% market share of the organized retail is the expected growth of Indian retail industry through 2021.
- The economist forecasts that Indian retail will nearly double in economic value, expanding by about \$400 billion by 2020.

RETAIL REFORMS IN INDIA

⁽³⁾ Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers.

The government of man Mohan Singh, prime minister, announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalization reform passed by an Indian cabinet in years;
- single brand retailers, such as apple and ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- All multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. it is expected that these stores will now have full access to over 200 million urban consumers in India;
- multi-brand retailers must have a minimum investment of US\$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post-harvest losses and bring remunerative prices to farmers;
- The opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

According to a wall street journal article it was estimated that 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. the retail market is being opened to just 53 cities out of about 8000 towns and cities in India, inspite of the fact that the Indian retail sector was opened up for demarcation between multi brand and single brand retailing segment.

SINGLE-BRAND RETAIL REFORMS.

⁽⁴⁾ On 11 January 2012, India approved increased competition and innovation in single-brand retail. The reform was to attract investments in operations and marketing, improve the availability of goods for the consumer, encourage increased sourcing of goods from India, and enhance competitiveness of Indian enterprises through access to global designs, technologies and management practices. The reform proposed single-brand retailer, with greater than 51% foreign ownership, to source at least 30% of the value of products from Indian small industries, village and cottage industries, artisans and craftsmen. Major brands like Ikea postponed its plan to enter in India due to the sourcing criterion. The Indian retail industry in the single-brand segment has received foreign direct investment (FDI) equity inflows totaling US\$ 275.4 million during April 2000–May 2015, according to the department of industrial policies and promotion (DIPP). While on 19 Feb. 2013 Tamil nadu became the first state in the country to stoutly resist MNC 'invasion' into the domestic retail sector. In Chennai, Tamilnadu CMDA authorities placed a seal on the massive warehouse spreading across 7 acres that had reportedly been built for one of the world's leading multinational retail giants, Wal-Mart.

ENLARGEMENT OF FORMATS OF RETAILING

The pioneering formats are adoptions of western formats that have brought about paradigm shift in the concept of shopping and shopper buying behavior from low price to convenience, value and superior shopping experiences (prasad and aryasri, 2011). India is going to become fifth largest consumer market from its present twelfth position and overtakes Germany to be behind the U.S. Japan, china and the UK. real consumption is estimated to grow. Modernization of traditional markets through public-private partnership (PPP), initiating uniform license regime applicable nationwide thereby doing away with numerous permits currently required for establishment of retail outlets, facilitating innovative banking solutions to ensure credit availability to unorganized retailers and farmers from financial institutions, stringent rules against collusion and predatory pricing and a code of conduct for organized retail sector for dealing with their suppliers, added the ASSOCHAM secretary general while listing major policy recommendations to spur growth in India's overall retail sector.

The store-based retailing has witnessed a CAGR of 7.6 per cent during 2011-16 and will grow by 44 per cent in absolute terms during this period. Within store-based retailing, grocery retailers are forecasted to grow at a CAGR of 8.9 per cent during 2011-16 and non-grocery retailers is expected to grow at six percent. Amid traditional grocery retailers, Kirana stores will continue to be the largest contributor to value share by 2016 and is likely to account for 61 per cent share. While, hypermarkets are likely to see rapid growth between 2011-16 registering a CAGR of 13.4 per cent-87.4 per cent in absolute terms. Modern grocery retailers as a whole would grow at a CAGR of 11.7 per cent between 2011-16 as compared to 8.2 per cent for traditional grocery retailers.

FUTURE SCENARIO OF RETAIL SECTOR IN INDIA

E-commerce is expanding steadily in the country. Customers have the ever increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come. Retailers should leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier-2 and tier-3 cities.

Both organized and unorganized retail companies have to work together to ensure better prospects for the overall retail industry, while generating new benefits for their customers.

Nevertheless, the long-term outlook for the industry is positive, supported by rising incomes, favorable demographics, entry of foreign players, and increasing urbanization.⁽⁴⁾

CONCLUSION

Acceptance and willingness to Implementation of GST is expected to enable easier movement of goods across the country, thereby improving retail operations for pan-India retailers. The modern retail market is expected to grow from USD 60 billion to USD 180 billion during FY15 - FY20. The government has approved a proposal to scrap the distinctions among different types of overseas investments by shifting to a single composite limit, which means portfolio investment up to 49 per cent will not require government approval nor will it have to comply with sectoral conditions as long as it does not result in a transfer of ownership and/or control of Indian entities to foreigners. As a result, foreign investments are expected to increase, especially in the attractive retail sector. It accounts for over 10 per cent of the country's gross domestic product (GDP) and around 8 per cent of the employment. India is the world's fifth-largest global destination in the retail space. (7) About 51 per cent FDI in multi brand retail, FDI of up to 100 per cent in single brand retail and for cash and carry(wholesale) trading and exports, Introduction of Goods and Service. Tax (GST) as a single unified tax system from next fiscal year are the booster dose for retail growth in India.

FUELING INVESTMENT FLOW IN INDIAN RETAIL SECTOR

- 1) Paytm plans to set up 30,000–50,000 retail outlets where its customers can load cash on their digital wallets. The company is also looking to enroll retailers – mostly kirana stores – as merchants for accepting digital payments.
- 2) Mobile wallet company Mobikwik has partnered with jabong.com to provide mobile payment services to jabong's customers.
- 3) Data wind partnered with homeshop18 to expand its retail footprint in the country. Under the partnership, homeshop18 and data wind would jointly launch special sales programmes across broadcast, mobile and internet media.
- 4) Fashion and you has opened three distribution hubs in Surat, Mumbai and Bengaluru to accelerate deliveries.
- 5) Abu Dhabi-based Lulu group plans to invest Rs 2,500 crore in a fruit and vegetable processing unit, an integrated meat processing unit, and a modern shopping mall in Hyderabad, Telangana.
- 6) Aditya Birla retail, the fourth-largest supermarket retailer in the country, acquired total hypermarkets owned by Jubilant retail.
- 7) With an aim to strengthen its advertising segment, Flipkart acquired mobile ad network Adiquity, which has a history of mobile innovations and valuable experience in the ad space.
- 8) US-based pizza chain Sbarro plans threefold increase in its store count from the current 17 to 50 over the next two years through multiple business models.
- 9) Amazon, the world's largest online retailer, is readying a US \$ 5.0 billion war chest to make India its biggest market outside the US.
- 10) Wal-Mart India private Ltd, a wholly owned subsidiary of Wal-Mart stores Inc., plans to open 500 stores in India in the next 10–15 years.
- 11) British retail major Tesco invested Rs 850 crore (US\$ 133.8 million) in multi-brand retail trading by forming an equal joint venture with Tata group company Trent; to form the joint venture, Tesco, which operates the star bazaar retail business in India purchased 50 per cent stake in Trent hypermarket Ltd.

NOTES

- SITP - Scheme for Integrated Textile Park, FDI - Foreign Direct Investment, 2021, JANUARY 2016
 E - Estimated figure for 2020, ASEAN - Association of Southeast Asian Nations

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