RETAIL MARKET IN INDIA

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ABSTRACT

An important aspect of the current economic scenario in India is the emergence of organized retail. There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the future. Major industrial houses have entered this area and have announced very ambitious future expansion plans. Transnational corporations are also seeking to come to India and set up retail chains in collaboration with big Indian companies. However, opinions are divided on the impact of the growth of organized retail in the country. This paper attempts at providing a retailing scenario in India and scope for future research in this area.

Present Retailing Scenario in India:

In India, organized retailing, is contributing three to four per cent of total retail sector and is still evolving. Retail sector forms 10-11 per cent of GDP. It is alluring in terms of investment, employment opportunity, and usage of technology. With more than 12 million retail outlets, India has one of the highest retail densities in the world. The retail landscape in India is dominated by mom-pop stores and though organized retail is emerging, but in last 4–5 years has seen many Indian companies making a entry into organized retail, with a few multinationals entering in the cash-and-carry formats and others tying-up with Indian companies.

India has the highest shop density in the world and the present retail market in India is estimated to be US$ 200 billion of which only three per cent (around US$ 6.4 billion) is in the organized Sector. This organized retail sector is poised for a takeoff. India is ranked second in the global retail development index out of 30 by AT Kearney. With the organized retail segment growing at the rate of 25-30 per cent per annum, revenues from the sector are expected to triple from the current US$ 7.7 billion to US$ 24 billion. The share of modern retail is likely to grow from its current three per cent to 15-20 percent over the next decade. 85 per cent of organized retailing is taking place in India’s urban areas while 66 per cent of it taking place in India’s 6 main cities alone. The growth is much faster in south India than in northern states. As per TechnoPark study the sales in the organized sector for food, beverage and tobacco is $195 billion which cover 65 per cent. Sale of personal care product is $15 billion (5 per cent) and apparel at seven per cent around $21 billion. In coming year’s co-brand labels will be more in these products. Table 1.1 shows the different phases in the growth of organized retailing in India.
Table 1.1 Journey of Organized Retail in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>First Phase</td>
<td>Entry, Growth, Expansion, Top line focus</td>
</tr>
<tr>
<td>2005</td>
<td>Second Phase</td>
<td>Range, Portfolio, Former options</td>
</tr>
<tr>
<td>2008</td>
<td>Third Phase</td>
<td>End to end supply chain management, Backend operation, Technology, Process</td>
</tr>
<tr>
<td>2011</td>
<td>Fourth Phase</td>
<td>M&amp;A, Shakeout, Consolidation, High investment</td>
</tr>
</tbody>
</table>

Source: Ernst & Young

The drivers for the impending retail boom or ‘R’ revolution

The increasing purchasing power of the Indian Middle Class, changing demography of the Indian populace, the increasing percentage of young people and women in the population is showing an increasing trend.

This again is good news for the retail market as women are more avid shoppers compared to men folk. The spread of the visual media is contributing its might in spreading visibility of various consumer goods to the public which heighten their aspirations to consume more and to shop in more congenial and luxurious environment. The increasing number of double income family who has more disposable income is another contributing factor for this phenomenon.

Organized retail market boom is expected to create the much needed mass employment. It will upgrade India’s second and third tier cities to international standards.

Development of world class retail shops is likely to give direct employment to many professionals like real estate dealers, builders, architects, display designers, retail shop managers and workers like sales persons, security etc. According to CII the retail sector can absorb 9.0 lakh people over the next five years.

Small business can spring up around such mega retail outlets giving service to large number of shoppers visiting the malls. The organized retail market boom is expected to become one of the pillars to Indian economy like oil and gold for Middle East. Indian exports will get a boost when the big showrooms source Indian goods from small businesses for their international outlets and it will help us to find the market for the products from rural India.

Products from rural market and from small units will get private brand equity and market all over the world since retail majors for their success in sourcing cost-effective goods for supply through their retail outlets will be depending more on the unorganized manufacturing sectors and small units. Most of the working groups in these house based workers are women and children. Artisans and household providers of goods and services will be roped into the supply chain by enhancing their skills to bring about quality consciousness and increase their real time incomes. Removing the middle operators these working groups will be getting better remunerations and the living standards of these women laborers will surely improve.

Consumers would be the group which benefits the most. They would get wider choices of products and cheaper prices. This will increase consumption rate and will indirectly generate more employment and wealth. The local retailers will start offering better discounts that other foreign retail giants could not cope. Time saving online shopping, home delivery through web portal and ability for better comparison of products will increase customer satisfaction.

Growing organized food retailing in India will bring significant change in the agribusiness management. The supermarket and fresh food outlet showrooms will directly procure product from the farmers. They will be offering better seeds and fertilizers to these
farmers. The government subsidiaries to fertilizers will reach directly to farmers instead of factory owners. This strategy will surely influence the quality of food items and efficiency of the farming process. More and more biotechnology research and development labs will be established to meet the demand for good seeds.

The irrigation and power supply will be facilitated for the growing demand of the product funded by these big giants. The organized retail marketing will channelize large-scale private investments into irrigation, agriculture marketing, agriculture extension services and infrastructure such as roads, cold storage and grain banks.

Farmers are likely to get better prices for their products as these mega retailers are likely to procure their farm products directly from the farmers. Many of the middle men would be eliminated. They start contracts based farming and get assured buyer with stable price. There will be new business opportunities. The retail boom surely encourages the setting up of foreign brand manufacturing in India. The Indian market will become more competitive and the small retailer groups will start using quality measures like Retail Service Quality Scales (RSQS) for their performance improvement and will develop new standards suitable to Indian context. Opportunity for profit attracts more and more new business groups for entering into this sector. 100 per cent export oriented unit like Himatsingka Seide, Welspum is opening stores in Indian market. The business house like Wadia, Godrej, and Tata has entered into organized retail sector. Players like Ebony, Crosswords, Globus, Café Coffee Day, Barista, and Lifestyle have started expanding their operations. This will trigger India’s economic growth.

The IT sector offers fairly high income to Indian youth. The greater purchasing opportunity makes them to work hard for the luxuries in their life. The world class restaurants occupied in these retail showrooms will become a best place for get together and facilitate better family relationship. These retail showrooms will be a great relief for old age people since they need not be walking for shopping and dining a long way. Those who come back to India from foreign nation would be able to keep using their favorite brands as they are easily available through these retail shops.

The celebrations will become more enjoyable with costly gifts. The contest and offers during the festival season by theses big giants varies like air tickets, gadgets, jewelry, chocolates. The offers from air services like Singapore airlines and number of tourism development agencies from other countries give a new face to the festival season in India.

The traditional interiors of Indian houses will be replaced with items from countries like Japan, Korea, china and Taiwan. The local brands and traditional furniture which has now disappeared will be available with these foreign design and decorative items. The retail boom will bring a rush in property development and significant improvements in real estate and construction work at every small town in the country. Table 1.2 shows the dramatic changes in the Indian cities.

### Table 1.2 Changes in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban Share Population</th>
<th>Growth Rate</th>
<th>Average Return on Investment currently in Retail Real Estate.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>Tier 1 Cities</td>
<td>26%</td>
<td>9-10%</td>
</tr>
<tr>
<td>2001</td>
<td>Tier 2 Cities</td>
<td>28%</td>
<td>8-9%</td>
</tr>
<tr>
<td>2011</td>
<td>Tier 3 Cities</td>
<td>41%</td>
<td>10-11%</td>
</tr>
</tbody>
</table>

*Source: Ernst & Young*
Infrastructure and traffic facilities will improve significantly. Most of these stores are located away from the town areas which will encourage facilitating the road and transporting facilities to remote areas in the country. The gridlock of cars and other vehicles in the town areas will be reduced since the shopping centers find difficulty in parking areas and often the customers’ vehicle bring lot of traffic jam in peak hours. The Government and the property developers will be spending money to develop the transport and other infrastructure facilities.

Better weather forecasting will be take place as big giants like Wal-Mart start depending on local weather data for replenishment purpose. Consumers will be benefited by the call centre agents to enquire on particular product. For better store connectivity they will facilitate the real time status monitoring application, transformational technology like RFID, service based infrastructure and Virtual Private Networks.

The IT professionals start developing retail technology products like Personal Shopping Assistant (PSA), ERP and CRM applications which will look into inventory turn and stock availability by communicating in real time. IT industry will bring web portals to avoid the physical market mechanism and innovative technologies for treating each customer as unique. Number of strategic acquisitions like Oracle acquisition of Retek, 360 Commerce, ProfitLogic etc in the IT industries will take place to meet the retail specific functionality. Establishment of new centers like TCS retail innovation lab, HCL, Oracle Retail Centre for the requirement engineering and related process will take place across the country.

Retail showrooms will start offering multi channel online retailing facility. The Indian society may shift to buy product and services online. The online shopping destinations like eBay, Amazon and comparison shopping portals like Google and shopping.com will be more popular in Indian community. New domestic e- retailers will be available.

There will be an increase in the banks offerings and online facilities. The society will start using these online banking facilities, credit cards etc more and more in their daily life. The customer will be saving lot of time and have a better comparison of product in the neighborhood retail showrooms. The competition will become more as adjacent district showrooms will deliver better product within few hours. Much other related industry will start advertising their product in these local web portals. This will be beneficial to the small scale industry units.

**Unorganized Retail**

Indian retail is dominated by a large number of small retailers consisting of the local *kirana* shops, owner-manned general stores, chemists, footwear shops, apparel shops, *paan and beedi* shops, hand-cart hawkers, pavement vendors, etc. which together make up the so-called “unorganized retail” or traditional retail. The last 4-5 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Still, the overall share of organized retailing in total retail business has remained low.

Traditional retailers (*kirana* stores, street hawkers, and wet market stall operators) occupy an overwhelmingly large space in Indian food retail; almost 99 per cent of food and grocery being sold in this country is through traditional retailers. Therefore, their livelihood as modern retail expands is a legitimate concern that every policymaker must recognize.

**Future of Retail in India:**

The retail business would slow down definitely over the next decade in developed countries, while it would grow strongly in developing countries especially in India. This is based on a projection of three significant changes that will occur. First, the population in the age-group
50-70 years and above in the developed world will explode, shifting the share of consumer spending further away from goods towards services, such as travel, healthcare and maintenance of the elderly. Second, the population growth in the age-group 20-35 years in these countries will be relatively modest making the hiring of entry-level workers difficult, while the population in the age-group 35-50 years will decline leading to acute shortage of middle and upper management positions.

Third, in developing countries, there will be plentiful supply of workforce and consumers in the younger age groups. Besides, this demographic shift will make the developing countries more dynamic and risk-taking enabling them to grow much faster than the developed world. Driven by these trends, it is expected that retailers in developed countries will increasingly move to the markets of developing countries for growth.

The organized retail in food and grocery segment in India is growing fast; although the exact numbers on its growth differ widely (16–50 per cent) is depending on the source and definition being used. The growth rates projected by Planet Retail for the next five years indicate that the growth in organized food retail is likely to be accelerating, and it may turn out to be akin to the information technology revolution but so far has been well rooted in domestic demand and domestic capital.

The current and projected growth rates in organized food retail are quite high, albeit from a very small base. Organized retail in all commodities constitutes about four per cent of total retail, while in the food and grocery segment the ratio is less than one per cent. Notwithstanding this small share, if these high growth rates continue, or accelerate further, it might not be long—say, by 2015—before the share of organized retail in food and grocery segment accounting for at least 15–20 per cent; by then it would start having some noticeable impact not only on unorganized retail in food but all along the food supply chain. As the share of organized retail increases, the sector is likely to experience major consolidation, with large retailers and processors taking over smaller players or joining hands with other large retailers to exploit greater economies of scale.

India is one of the world’s largest food producers, producing around one ton of food for every single inhabitant. It is the world’s biggest producer of livestock, the biggest producer of milk, and the second largest producer of fruit and vegetables. Most food consumed in India is domestically produced, and spending is influenced by climatic conditions: poor monsoons reduce supply and push up prices, reducing discretionary spending on luxury food items. However, very sharp price rises are unlikely, as the Central and State Governments maintain substantial buffer stocks of essential foods which are used to forestall significant shortages.

FDI in Retail:

Wal-Mart is already present in India in cash and carry, or wholesale, segment through a 50:50 joint venture with Bharti Enterprises. The government raised the FDI limit in single-brand retail to 100% and 51% in multi-brand retail in January 2012. The Government has imposed certain conditions like foreign retailers planning to enter the multi-brand segment would have to invest a minimum of $100 million with 50 percent of it in the back-end infrastructure. The firms will have to source 30 percent of their products from MSMEs. These conditions will definitely improve our supply chain infrastructure and the economy. The Micro Small Medium Enterprises will be prospering on supplying to these Retailers. The Foreign Investment Promotion Board, or FIPB, the inter-ministerial body that approves FDI proposals in the country, has received 63 proposals from single-brand retailers after FDI was allowed in the sector.
Conclusion:

The emergence of organized retail undoubtedly gives consumers a wider choice of goods, more convenience, and a better shopping environment, among other benefits. Organized retail can appear small but spread in all local markets, providing the convenience of a neighborhood kirana store but with procurement on a mass scale that keeps prices low and provides greater variety. The future research can focus on Comparative study of organized and unorganized retailing in India, growth of small size formats vis-à-vis hypermarkets, and the growth and success of Malls in metros and tier 1 cities.

References:

Ernst & Young report


India Retail Report 2012.