

**ORGANIZED RETAILING IN INDIA CHALLENGES AND OPPORTUNITIES**

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**ABSTRACT**

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. The retail industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. The Indian retail industry is the largest among all the industries, accounting for over 10 percent of the country's GDP and around 8 percent of the employment. The main challenge facing the organized sector is the competition from unorganized sector. The organized retail segment is mainly dominated by the apparel and textile segment followed by the food, grocery and beverages segments. The changing consumption pattern is unleashing opportunities for retailing growth in Indian urban area. This has to be reached to the Indian rural for a viable retailing in India. This paper provides detailed information about the growth of retailing industry in India. It also highlights the challenges faced by the industry in near future.

**KEYWORDS**-Retailing, Entrepreneur, Foreign Direct Investment, Gross Domestic Product.

## **INTRODUCTION**

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. The retail industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. It is also the second largest industry in US in terms of number of employees and establishments. The Indian retail industry is the largest among all the industries, accounting for over 10 percent of the country's GDP and around 8 percent of the employment. According to an estimate unorganized retailing sector has 97 per cent presence, whereas, organized retailing accounts merely three percent. The main challenge facing the organized sector is the competition from unorganized sector. Unorganized retailing has been there in India for centuries, these are named as mom-pop stores. The main advantage in unorganized retailing is consumer familiarity that runs from generation to generation. It is a low cost structure; they are mostly operated by owners, have very low real estate and labour costs and have low taxes to pay.

## **OBJECTIVES**

The specific objectives of this paper are: to understand the consumption of retail customer, to study the emerging trends in Indian retailing and to examine the challenges & opportunities for organized retailing in India.

## **RESEARCH METHODOLOGY**

This paper is the outcome of a theoretical study on retailing in India with special reference to organized retailing in India. To complete this, various books, journals and periodicals have been consulted, reports of various organizations like A.T. Kearney Report, Ernst & Young, Indian Council for Research on International Economic Relations (ICRIER), KSA Technopak have been considered. Internet searching has also been done for the purpose.

## **RETAIL IN INDIA – HISTORICAL PERSPECTIVE**

The Indian retail industry is divided into organized and unorganized sectors. Organized 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. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, such as the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

In the beginning there were only kirana stores called Mom and Pop Stores, the Friendly neighbourhood stores selling every day needs. In the 1980s manufacturer's retail chains like DCM, Gwalior Suitings, Bombay Dying, Calico, Titan etc started making its appearance in metros and small towns. Multi brand retailers came into the picture in the 1990s. In the food and FMCG sectors retailers like Food world, Nilgris are some of the examples. In music segment Planet M, Music world and in books Crossword and Fountainhead are some others. Shopping Centres began to be established from 1995 onwards. A unique example was the establishment of margin free markets in Kerala. The 21st century saw the emergence of super markets and hyper markets. Big players like Reliance, Bharti, Tatas, HLL, ITC etc. are entering into the organized retail segment. The international

retail bigwigs are waiting in the wings as the present FDI guidelines do not allow them to own retail outlets in the country.

The retail sector has gradually undergone considerable changes in its form since 1991. The major shift has been the emergence of an organized sector within the retail industry. Many Indian entrepreneurs have taken a keen interest in retailing over the last decade and have successfully established organized retail chains. Along with these domestic developments, there has been a simultaneous attention being given to the Indian retail market by international retail giants, mainly because of the sheer size of the market. The most important development in this context has been the tie up of Wal-mart, America's largest retail chain with Bharti, the Indian telecom giant which is likely to be concretized in June, 2009. India's modern retail business currently accounts for only about 5 per cent of the country's annual retail business. The modern retail business will create about 1.6 million jobs in the next five years. Modern retailers will not only create employment opportunities but also would help raise India's overall economic productivity and could also result in lowering prices of goods. Opening gates for FDI in retailing, the changing consumer needs, rise in young generation population and working women population are the primary strength verticals of India's organized retail segment. These are resulted, in the Indian economic system with an exponential increase of nuclear families looking for a comfortable life style. IT and ITES boom along with the spread of BPO in tier-II cities of India has significantly motivated the phenomena called experience marketing. Organized retail took shape in India through various phases, the sector was expected to perform gloriously being economic prosperity has encouraged many Indian and Foreign players to join together.

#### **IMPACT OF ORGANIZED RETAILING ON THE UNORGANIZED SECTOR**

According to a study on impact of organized retailing on the unorganized sector, the real GDP is expected to grow at 8-10 per cent per annum in the next five years. As a result, the consuming class with annual household incomes above Rs. 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. Consequently, the retail business in India is estimated to grow at 13 per cent annually. The unorganized retail sector is expected to grow at about 10 per cent per annum. Given the relatively weak financial state of unorganized retailers, and the physical space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand for retail.

Hence, organized retail which now constitutes a small four per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12.

This represents a positive sum game in which both unorganized and organized retail not only coexist but also grow substantially in size.

The majority of unorganized retailers surveyed in this study, indicated their preference to continue in the business and compete rather than exit. Based on the findings of AT kearney report on retail in India: Getting organized to drive growth, there are 10 over-arching issues that most retailers view as major impediments to growth and the associated escalation in "consumerism". These issues are:

- Underdeveloped Supply Chain Capabilities
- Inadequate Utilities
- IT Infrastructure Hurdles
- Supply Base (Vendor) Hurdles
- Inadequate Human Resources
- Limited Consumer Insights
- Taxation Challenges
- Real Estate Hurdles
- Insufficient Government Incentives
- Policy Related Hurdles

India's GDP stands at the trillion dollar mark, and with a sustained growth rate of over 8 per cent, it is confidently poised to be the leading centre of global economy by 2020. GDP of India is expected to be around US\$ 1.1 trillion by 2010 and would reach a staggering US\$ 37 trillion by 2050 which would make it the third largest economy in the world. This would mean that India's GDP will increase close to US\$ 1 trillion on an average year-on-year over the next 40 years. This fast GDP growth is driving towards Indian consumerism. Indian consumers today are more confident and willing to splurge owing to increased income levels. India's consumer market will be the world's fifth largest (from twelfth) by 2025 and India's middle class will swell by over ten times from its current size of 50 million to 583 million people by 2025.

#### **EVOLUTION OF INDIAN RETAIL**

The high sustained growth of Indian economy over the past 5 years has been a boon to the retail sector. The sector is on a high growth trajectory and is expected to grow by more than 27 per cent over the next 5 years.

#### **TRENDS IN INDIAN ORGANIZED RETAILING**

The present value of the Indian retail market is estimated at \$300 billion and the annual growth rate is 5.7 per cent. The organized retail segment is mainly dominated by the apparel and textile segment followed by the food, grocery and beverages segments. The food, grocery and beverages segment dominates the entire retail market (both organized and unorganized), but its penetration in the organized retail side is relatively low. The emergences of other segments like home décor and furnishing, footwear, jewellery, consumer durables and electronics and health, beauty and pharmaceuticals to name a few, has been the highlight of this decade.

- Weekly Markets
- Village Fairs
- Convenience Stores
- Mom and Pop/Kiranas
- PDS Outlets
- Khadi Stores
- Exclusive Brand Outlets
- Hyper/Super Markets
- Department Stores

- Traditional/Pervasive Reach
- Government Supported
- Historic/Rural Reach
- Modern Formats/ International
- Source of Entertainment
- Neighborhood Stores/Convenience
- Availability/ Low Costs / Distribution
- Shopping Experience/Efficiency

### **TARGET MARKET OF THE ORGANIZED RETAILER**

In 2008, India's working population (in the age group of 15-49 years) constituted around 53 per cent of the population as compared with 48.6 per cent in UK, 49 per cent in US, and 53 per cent in Russia. In addition, this population is more dynamic than the previous generations because their consumption is driven by wants rather than needs. Thus, the organized retailing, which thrives on lifestyle products, is expected to receive a boost because of the young population by 2020. The survey conducted by D&B revealed that a majority of the companies cater to age group of 25-40, followed by 41 per cent of the companies catering to the age group of 18-25.

### **GROWTH DRIVERS OF INDIAN ORGANIZED RETAILING**

When we carefully look at the growth of retailing in India, this entire credit of establishment became possible due to the substantial raise in propensity to consume. This took place over a period of two decades by the Indian urban middle class families. Extension of credit facilities by the banking institutions, unprecedented growth registered in Telecommunication, Communication and broadcasting industry and a transition state of the economy from developing state to the rapidly and consistently developing economy has significantly contributed towards the growth of different cross section forms of retailing. But, this has not fully reached the farflung rural areas of Indian economy.

### **GROWTH DRIVERS IN INDIA FOR RETAIL SECTOR**

Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes.

Liberalization of the Indian economy.

#### **Increase in spending Per capita Income.**

Advent of dual income families also helps in the growth of retail sector.

Shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc.

Consumer preference for shopping in new environs.

The Internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains. Reach of satellite T.V. channels is helping in creating awareness about global products for local markets.

About 47 per cent of India's population is under the age of 20; and this will increase to 55 per cent by 2015. This young population, which is technology-savvy, watch more than 50 TV satellite channels, and display the highest propensity to spend, will immensely contribute to the growth of the retail sector in the country.

Availability of quality real estate and mall management practices.

Foreign companies' attraction to India is the billion-plus population.

### **RURAL INDIA A CHALLENGING OPPORTUNITY OF RETAILING**

Rural India accounts for roughly 70 per cent of the population. Almost 6, 27,000 villages are home to 790 million Indians today. At present 85 per cent of the organized retailing takes place in India's urban areas. But the good thing is that the retail focus has already shifted to the rural areas. The Indian rural market with its vast size and demand base offers great opportunities to marketers. Two-thirds of country's consumers live in rural areas and almost half of the national income is generated here. 15 per cent of rural population lives in 20,000 large "non urban" areas with population more than 5,000 people. 63 per cent of rural population lives in villages of 1000 to 5000 people. Remaining 3, 90,000 villages have fewer than 1000 people accounting for 22 per cent of the population.

According to retail and consumer products division, E&Y India, basic infrastructure, generation of employment guarantee schemes, better information services and access to funding are also bringing prosperity to rural households. The rural market, product design will need to go

beyond ideas like smaller sizes (such as single use sachets) to create genuinely new products, according to Ramesh Srinivas, National Industry Director (consumer markets), KPMG India. Given the size of the rural population and the agricultural income growth in rural India, the rural market is definitely an opportunity for retailers with an innovative retail proposition. A clear indicator of this potential is the share of the rural market across most categories of consumption.

According to MGI forecast rural market will nearly triple till 2025 creating a vast potential of \$577 billion. With the increase in income rural population will spend increasingly on other products then spending on food.

### **CHALLENGES IN THE RURAL RETAILING**

- Lack of literacy and awareness
- Low per capita income
- Wide geographic spread
- Gaps in road and Telecommunications connectivity
- Lack of reliable electricity and water supply

- Limited Distribution network for example cold storage
- Competition from local players

### **WAYS TO OVERCOME THE CHALLENGES**

Integration of rural initiatives into business model like ITC. Corporate should supplement government efforts & resources (infrastructure development, education system, storage). Creating retail stores which should be rural in nature so that the rural masses identify themselves with these stores. Innovative & Exciting Initiatives such as Village BPO should be given impetus to tap the talent in the rural India.

### **CONCLUSION**

Indian retailing industry is significantly contributing towards the GDP and employment generation. Unorganized retailing has a predominant chunk of retailing in India. Organized retailing has its growth because of the propensity to consume behaviour of Indian middle class segment. But, this was affected by the global financial meltdown. Despite of this retailing in India will have a tremendous future, if retail players concentrate on Indian rural segment, having vast and untapped potential. For this, the strategy should be different from that of urban to turn challenge as an opportunity.

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