

# RETAIL LANDSCAPING IN INDIA – CHALLENGES AND STRATEGIES

Arcot Purna Prasad (Associate Professor)

Institute of Management, Christ University, Hosur Road, Bangalore-560029

Trading is the basic “mantra” of all businesses. The difference between selling price and buying price is called margin from trader's perspective. Abnormal margins attract more players and thin margins are the outcome of severe competition. Competition has surpassed all levels and now companies are focusing on supply chains. Historical perspective about retailing is basically of two types. One of which is consumer durable and the other is consumer non-durables. Competition among supply chains have started. It is time to look at the mirror critically and identify our strengths and develop them first. Weaknesses are either outsourced or buried under deep soil. Now there is no point in worrying too much about our weaknesses. When markets are calm, disruptive innovation will break the backbone of the legacies and create a new game which is full of turbulences. It is better to focus on innovations all the time otherwise it becomes too late to make a comeback in the dynamic markets. Basically strategic technology absorption is the key to move on.

**Keywords:** Customer Services, Foreign Direct Investment, Indian Retail, Organized Retailing, Retailing, and Retail Formats.

## I. INTRODUCTION

Today's supply chain management can be viewed as a combination of SRM, ERP and CRM. In this, SRM is Suppliers Relationship Management, coupled with ERP (Enterprise Resource Planning). These are connected with CRM (Customer Relationship Management).

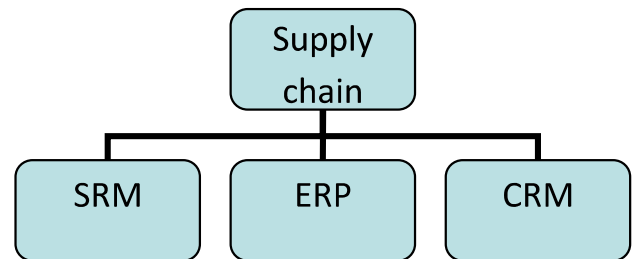


FIG 1: MACROSCOPIC VIEW OF SUPPLY CHAIN

Every company needs to feel that suppliers are the extended version of their facility. Quality management starts at supplier's place. Inventory cost can be controlled by having balanced win-win strategic alliance with suppliers to develop Vendor Managed Inventory (VMI) which can ultimately become JIT (Just in Time). On other side pull system can be adopted to reduce finished goods inventory, then companies are left out with work in process inventory and becomes the only area of concern. If inventory cost can be controlled, then product and services becomes cheaper by 30% to 35%. Customers do like product and services which are more affordable and may result into higher market share. This is the game plan of Japanese Automobile industry to capture the different markets such as US, Europe and Asian Markets. Quality is the basic ingredient. Today supply chains are chased by VUCA (Volatility, Uncertainty Complexity and Ambiguity). Retailing is one of the important operations of the supply chain. It can be either B2B (Business to Business) or B2C (Business to Customers).

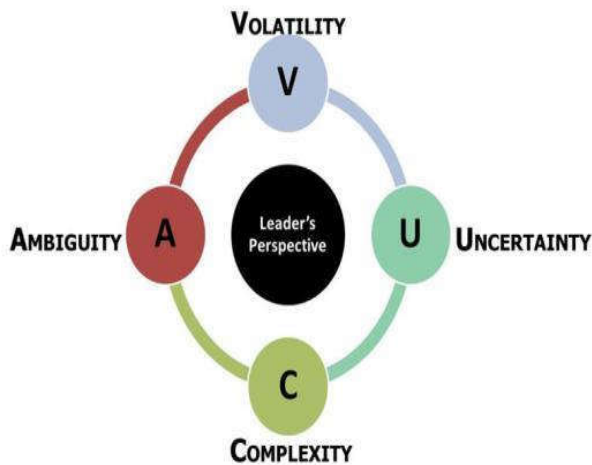


FIG 2: VUCA ELEMENTS

I. RESEARCH METHODOLOGY:

This is an exploratory research which focuses on historical aspects of Indian retail industry. In this paper historical facts are taken and placed according to chronological order. Analysis is carried out to identify challenges and suggest few possible strategies to tackle these challenges.

II. OBJECTIVES

1. To study the historical perspective of retailing in India.
2. To identify challenges of Indian retail industry.
3. Suggest suitable strategies to tackle Indian retail Industry

Data Collection and Analysis:

Data is collected from secondary sources and some insights are drawn from it. Comparative Analysis is carried out to get a clear

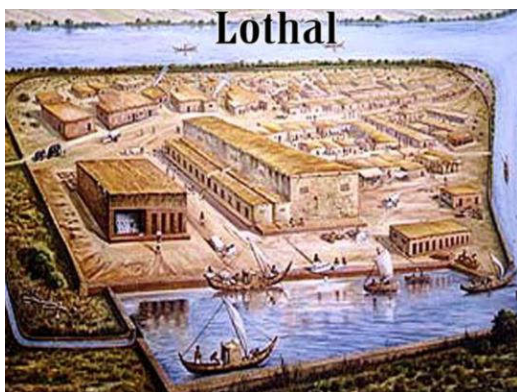


FIG 3: INDUS VALLEY

understanding of

retail journey in India and identify few challenges.

**Limitations of the study:** This research paper focuses on Indian retail Industry and gives macroscopic perspective and detail analysis of each segment of retail can be carried out as further areas of research to get sectors specific issues.

III. LITERATURE REVIEW:

**Historical perspective about retailing:**

Retailing is of two types. One is the consumer durable and other is the consumer non-durables. Consumer durables have higher shelf life and consumer non-durables (FMCG) have lesser shelf life. In FMCG retail segment, lot of vigor and rigour is exhibited in terms of wooing customers and retaining them for sustainability. FMCG retail runs on volumes with wafer thin margins. Good discounts are offered to off load items from retailers.

**Origins of Retail formats in India**

The origin of retail business in India dates back to Indus valley civilization. Indus valley civilization was a Bronze age civilization that was present in the Indian sub-continent during 3300 BC to 1300 BC. As per history texts, it is understood that the inhabitants had constructed a market place where they sold handicrafts and metal products. After the Indus valley civilization, traditional formats of Haats, Bazaars and Sandis emerged.



FIG 4: MARKET PLACE

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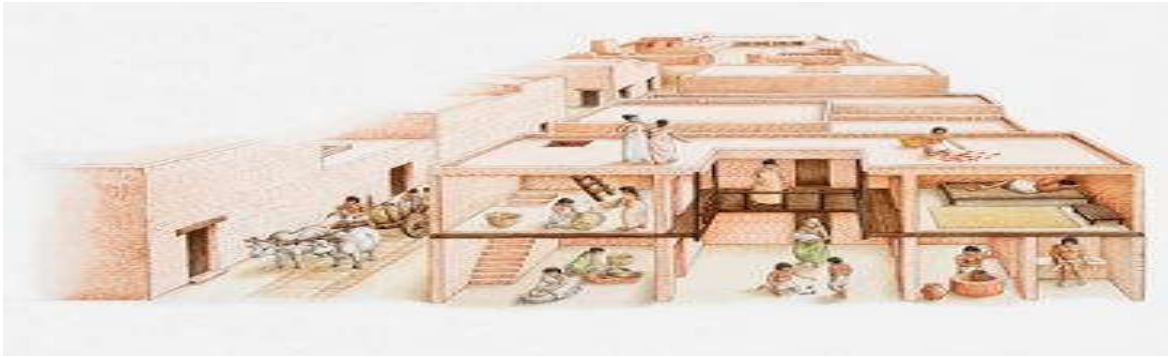


FIG 5: HOUSE PLAN DURING INDUS VALLEY CIVILIZATION



FIG 6: CITY LAYOUT DESIGNED USED DURING INDUS VALLEY CIVILIZATION

During the Mughal rule in the 17<sup>th</sup> century, retail business in India underwent a sea change with the construction of Chandni Chowk bazaar which is one of the oldest and busiest markets in old Delhi. This market was divided into three major sections; the first section started from Lahori Darwaza to Chowk Kotwali, this section focused on books especially Urdu literatures and was

popularly known as ‘Urdu bazaar’. The second section begins from Chowk Kotwali to Chandni Chowk and was popularly called Johri bazaar and the stores sold the best jewelry and gems. The third or the last section was popularly known as Fatehpuri bazaar. This section focuses on the sale of handicraft items, gifts, clothes, showpiece etc.



FIG 7: CHANDNI CHOWK BAZAAR DURING 1814      FIG 8: CHANDNI CHOWK BAZAAR DURING 1815



FIG 9: CHANDNI CHOWK BAZAAR DURING 1841-1852      FIG 10: CHANDNI CHOWK BAZAAR DURING 1857

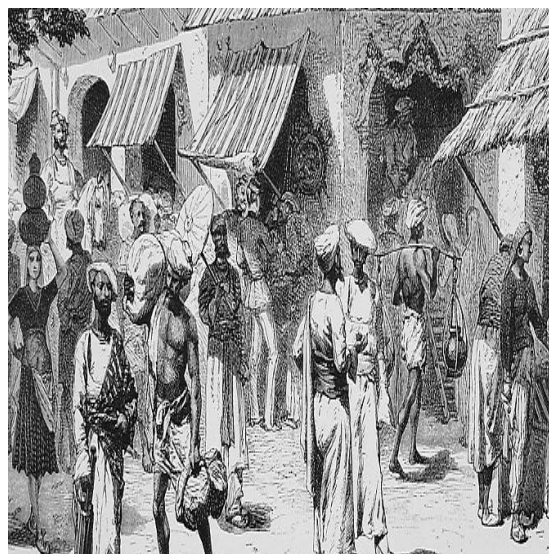


FIG 11: CHANDNI CHOWK BAZAAR DURING 1867      FIG 12: CHANDNI CHOWK BAZAAR DURING 1878

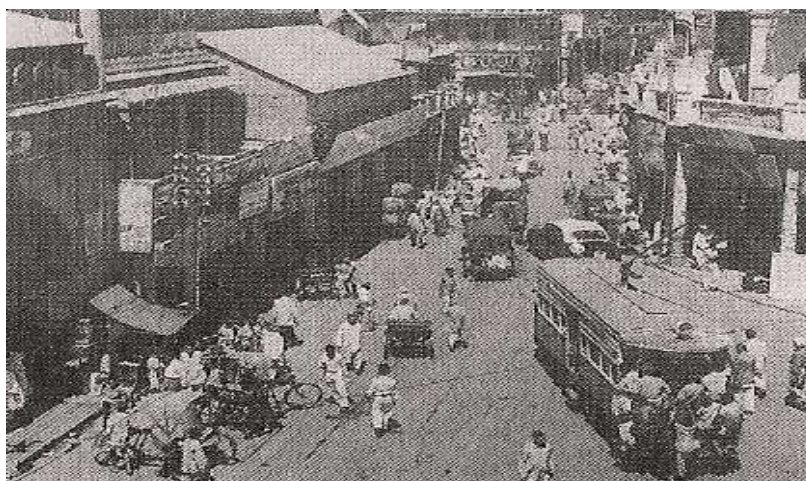


FIG 13: CHANDNI CHOWK BAZAAR DURING 1910

During the British rule in the 19<sup>th</sup> century, Calcutta (now Kolkata) saw the emergence of organized retail in India with the construction of the Hogg market and is considered as one of

Kolkata's earliest shopping center designed by East India Railway company architect, R.R Bayne and was opened up in 1874 and was named after then municipal commissioner of Calcutta, Sir

Stuart Hogg.



FIG 14: HOGG MARKET 1905



FIG 16: HOGG MARKET TODAY

Sl.No	Sector	Examples
1	Food	Food World, Nilgiris, Food Bazaar
2	Entertainment	PVR, Cinepolis, Planet M, Music World
3	FMCG	More, Big Bazaar, Spar
4	SPA	VLCC and YLG
5	Books	Crossword and Fountainhead
6	Healthcare	Medplus and Apollo Pharmacy
7	Jewelry	Tanishq, Joyalukkas, Bhima etc.,

**Indian Retailing From 1947 to 1991 and post 1991:**

The period from 1947 to 1965, termed as the modern retail scenario in India, can be comprehended in terms of two times the manufacturing era where the focus was on production of industrial good and the period from 1965 to

**TABLE 1: DIFFERENT SEGMENTS EMERGED IN INDIA POST 1991**

1980s is termed as sellers' era which saw the entry of private players. However, during this phase, there were limited number of products and limited choices for the buyers due to license regime and the sellers ruled the roost. The textile sector was the first to come up with retail chains like Bombay Dyeing, Raymond and Fab India which was followed by departmental stores like Spencer's retail that sold a wide assortment of products ranging from food, personal care products and home products.

The second most significant time period in the Indian retail scenario started post 1991 when the Indian Government opened the doors of Indian economy to foreign players which was popularly dubbed as the LPG era that changed the face of the Indian retail business. The latter half of 1990

**Table 1: Retail sectors and examples**

witnessed the transition of several Indian manufactures

turning to pure retailing, e.g. Titan. The period post 1990 also saw a fresh wave of new entrants in the Indian retail space, like Food World and Nilgiris in the food and FMCG sector; Planet M and Music world in Music, Crossword and Fountainhead in books. Table 1 below shows the different segments that emerged in India post 1991.

#### Present Retailing Scenario in India:

Indian retail trade is currently in transformational state. As per the industry data available on the public domain, the Indian retail

The Indian retail industry is valued to be currently worth around US\$ 500 billion [1]. As per the estimates of the Department of Consumer Affairs, the domestic retail market is projected to be worth US\$ 1.3 trillion by 2020 [2]. McKinsey Global Institute predicted that India's consumer market would be worth US\$ 1.5 trillion by 2025, surpassing Germany to become the fifth largest economy (behind the US, Japan, China and the UK) in the world. Almost 90 per cent of the Indian retail sector is controlled by tiny family-run shops (i.e. the unorganized segment). The Organized retailers have a lot of room for further penetration in this flourishing sector [3].

The unorganized retail stores are very small in size. Kamal and Kumar [4] cite that out of 14 million outlets situated in the country, only 4% have space larger than 500 sqft. As per the estimates, there are 11 retail outlets for every 1000 people. A majority of unorganized retail outlets are managed by family members. The challenges for such an arrangement includes [4], inability to scale up procurement and transportation of products in high volume, limited information regarding quality control and less discrimination about fake-versus-authentic product screening technology. They do not have any type of formal training about safety and hygienic storage, packaging or logistics of the product and most of them follow the same traditional retail practices

industry accounts for about 14-15 per cent of the GDP of the country.

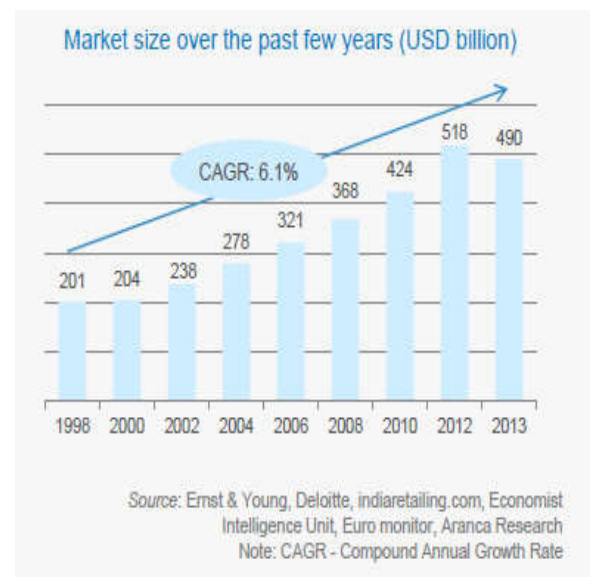


Fig 17: Market Size over the past few Years (USD bn)

which they learned from their predecessors. The unorganized retailers cannot reduce their inventory procurement costs as they procure their items from middle men who engulf large commission and most of their payment is through cash transactions.

The concept of organized retail is formed on the basis of four principles that were found lacking in the unorganized retail sector. The four principles are Customer orientation, Coordinated effort, Value driven and with Goal orientation. Thus an organized retailer integrates all plans and activities to maximize the efficiency of their operations which results in better service to the end user.

A study conducted by ICRIER in 2010 reveals that, share of India's organized retail to be about 8% which is comparatively very low than countries like USA (85%), UK, France, Germany, Spain, Taiwan (75% - 80%), Japan, South Africa (67%-70%). It was estimated that India had tremendous potential for growth and it is expected to reach 15% of the total market share in the next 5 years. Currently the share of organized retail in India is only about 10%, but with the change of taste and preference of consumers, the organized retail industry is expected to increase its share in the retail market of India [5].

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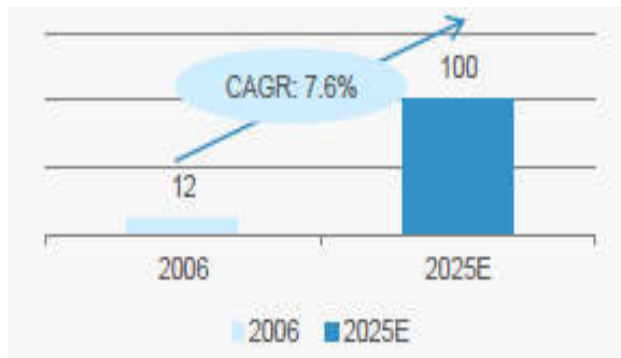


FIG 18: GROWTH OF ORGANIZED RETAIL IN INDIA

Sikri and Wadhwa [6] report that the revenue generated from organized retail was \$15.5 billion in 2009, \$41.4 billion in 2012 and would be \$94.8 billion in 2019. Table 2 shows retailing

practices in an unorganized sector vis-a-vis in an organized sector [7]

Criteria	Organized	Unorganized
Ownership	Corporate Business Houses	Family owned business.
Size of Operation	Large stores of above 1000 Sqft	Small stores less than 100 Sqft
Selling Price	Lower than MRP	At MRP
Nature of Employment	Hired professionals	Family members. Include 2 <sup>nd</sup> and 3 <sup>rd</sup> generation family members
Nature of Customer Interaction	Formal and more professional and uses loyalty cards for CRM	Informal and less professional.
Store Ambience	Modern store layout, products are neatly stacked which enables customer to easily locate a product	Generally scattered. It is difficult for customer to locate a product in the store
Product and Variant Options	Wide range of branded and non-branded products and all existing variants are available	Selected range of branded and non-branded products and limited variants are available
Packaging of products	Standard pack size are used	Products are packed as per buyer requirements. Few packed brands are also available.
Supply chain	Procure products directly from the original sellers.	Procure from middlemen or large wholesalers
Inventory storage	Have large warehouse to stock the products which are shipped at regular intervals to different stores of the company	Have small storage area that doesn't allow the retailer to store in large quantities
IT infrastructure	Have ERP modules to keep track of inventory that share data with the supplier for replenishment	Do not have ERP solutions to keep track of inventory and often face stock out
Payment Transaction	Allows multiple modes of payment transaction such as cash, credit card, debit card, etc.	All transactions are through cash only
Tax Payments	Ensures proper taxation mechanism	No proper taxation mechanism in place
Access to finance	Bank loans available to organized retailers	No easy access to finances. Most of the time they borrow money from private moneylenders at high interest rates
Product Promotion	Joint Promotion	Company Promotions only

TABLE 2: COMPARISON OF RETAILING PRACTICES

The Major product segments in Indian retail are jewelry, apparels, electronics, etc... And report presents the trading densities of organized retail product segments vis-a-vis their South African counterpart. The comparison is made by choosing South Africa as

the benchmark as against the more popular Dubai, Singapore, UK or USA because of the following reasons [8].

- South Africa is an emerging economy, very similar to India in many aspects. E.g. 44% of RSA population

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lives below the poverty line as

- compared to 37% in India.
- South Africa is a multi-religion, multi-ethnic and multi-cultural society like India
- Like India, South Africa also faces urbanization and infrastructure pressure.

**Retailing Formats in India:**

Rahman [9] suggests about the types of organized retail formats in India. Table 3 describes the four types of retail formats commonly found in India.

Type	Location	Size in Sqft	Products sold
Convenience Stores	Near to residential areas	400 – 2000	Limited range of high turnover convenience products
Super Markets	Near residential high streets	2000- 5000	Food, grocery and personal grooming products
Hyper Market	Metros	20,000 - 50,000	Clothing, toys, home needs, groceries
E-tailers	Web presence. Have large warehouses on city outskirts	50,000	Multiple products

**TABLE 3: RETAIL FORMATS IN INDIA**

**Government Policy on Organized Retail**

There is an absence of specific legislation to control the distribution trade; however, Baral and Satapathy [10] cite the existence of barriers for the interstate movement of goods because of multiple laws in force at the central, state and local levels governing the retail sector. All the retailers are mandated to follow the general rules pertaining to establishment of stores and conduct of activities, viz. Shop and establishment act, standards of weights and measures act, provisions of contract labor act, income tax act, customs act, companies act, etc.. Some examples of specific state rules for organized retailers include 10%

surcharge imposed by the Tamilnadu Government on organized retailers, Mall developers in West Bengal are asked by the state government to reserve 10% space for unorganized retailers. There is an absence of a single window clearance facility and organized retailers are forced to approach various local bodies to get their approval to carry out their business [11].

**Government Policy on FDI in Organized Retail**

The Indian Government under the United Progressive Alliance (UPA) regime in January 2012 approved reforms for single-brand stores, welcoming anyone in the world to invest in the Indian retail market with 100% ownership, but imposed a requirement

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that the retailer should source 30% of its goods from India. In December 2012, The Indian government approved 51% FDI in multi-brand retail with the same requirement as in single-brand retail to source 30% of its goods from India [12].

**Impact of India's Retail Policies on Stakeholders:**

**Government:** Improvement in Balance of Payment, Surge in employment Opportunities, Higher Tax Collection, etc.

**Farmers:** Reduction in wastage and leakage owing to better back-end infrastructure of organized retailers, More money for their produce due to the absence of middlemen.

**Manufacturing and MSMEs:** Increase in Demand for Organized Retailers, Growth in Export Opportunities, Imports from other low cost manufacturing countries.

**Unorganized Retailers:** Potential migration of customer base leading to loss of livelihood

**Indian Organized Retailers:** Access to new technologies, Capital infusion through bank loans, collaboration through international retailers

IV. FINDINGS:

**Challenges faced by the organized retailers in India**

• *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.

• *Lack of industry status* - Due to the absence of industry specific norms, organized retail in India faces difficulties in getting finance and fiscal incentives.

• *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

**Consumers:** Lower prices compared to unorganized retail stores, better shopping options and shopping experience.

The State Governments of Bihar, Karnataka, Kerala, Madhya Pradesh, West Bengal, Tamil Nadu, Rajasthan, Tripura and Odisha have expressed their reservations on Foreign Direct Investment (FDI) in their respective states on retailing. Some of these states have even enacted specific laws that need to be followed by organized retailers in their respective states. Payment system is also an important breakthrough development to trigger organized retailing system. Basically Brick and Mortar is operating on cash and carry model. But organized retailing is doing payments by adopting various other means. They are as follows: Online ordering and payment through internet banking, Through credit cards and debit cards with One Time Password or PIN (personal identification number), Meal passes such as Sodexo, Dining etc., to purchase food items, EMIs to give installment purchases, Mobile wallets, Well connected VISA and Master networks which enables people with better connectivity of ATMs for cash withdrawal.

terms of licenses and legislations.

• *Investment Climate* - In the latest 2014 Global Retail Development Index (GRDI) that looks at measures for retail investments worldwide, published by management consulting firm AT Kearney, India has slipped to the 20th rank among the top 30 developing countries identified in the report. In the 2013 GRDI, India stood at number 14. This is a grave concern in terms of the investment climate India is projecting to investors to invest in India retail sector [15].

• *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.

• *Changing lifestyles and consumer behaviors*- Rapid urbanization, an expanding middle class, rising incomes and spending power coupled with a majority of youth in total population, trigger a new consumption pattern. Consumers have become choosier and they prefer variety on the products they buy these days which mandate the retailers to prioritize on customer

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satisfaction both in terms of product and service. This is leading to mass customization and silent revolution called 'Consumerism'.

### Strategies for Improvement

According to the current available estimates, the retail sector contributes to 8% of the employment in the country. The modern retail/retail services sector has the potential of

creating over 2 million new (direct) jobs within the next 6 years in the country (assuming only 8-10% share of organized retailing). 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. A strong retail front-end can also provide the necessary fillip to agriculture & food processing, handicrafts and small & medium manufacturing enterprises, creating millions of new jobs indirectly.

The Government should grant the much needed 'industry status' to the sector by implementing industry specific norm that is uniform throughout the country so that the Standard Operating Procedures (SOP) that come with it will help to promote both big and small retailers.

There is a need to govern retail operations through a single apex body. A single agency can take care of retail operations more

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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. Retail is still hindered by high consumer price inflation, currency fluctuations, high current account deficits, government debts and strict Foreign Direct Investment policies that have long been an impediment to growth. There is a need for strong government intervention in framing policies in these areas.

### VI CONCLUSION

There exist various challenges that are prevalent in the Indian retail sector as elaborated below: Shortage of skilled manpower, lack of industry status, policy induced barriers, investment climate, real estate, changing lifestyles and consumer behaviors.

To conclude India is still at a nascent stage with respect to organized retail and several emerging economies have gone ahead and reaped the benefit of modern retail. India has few retail segments that have higher trading densities than some of these emerging economies and it offers immense potential to organized retailers to tap those segments profitably. The government policies are yet to create conducive investment climate, which is a source of grave concern and it should be addressed sooner to gain on the benefits of foreign investments in the retail sector

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- FDI: Foreign Direct Investment  
GRDI: Global Retail Development Index  
ICRIER: Indian council for research on International Economical Relations  
JIT: Just In Time  
MRP: Maximum Retail Price  
MSME: Micro Small Medium Scale Enterprises  
PIN: Personal Identification Number

### Appendix

#### List of Abbreviations

ATM: Automated Teller Machines  
CAGR: Compounded Annual Growth Rate  
CRM: Customer Relationship Management  
EMI: Equated Monthly Installments  
ERP: Enterprise Resource Management

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RSA: Republic of South Africa

SOP: Standard Operating Procedures

SRM: Supplier Relationship Management

UK: United Kingdom

UPA: United Progressive Alliance

USA: United States of America

VMI: Vendor Managed Inventory

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