

EMERGING RETAIL SECTOR IN INDIA

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ABSTRACT

Retail is the world's largest industry with global retail sales of roughly USD 8 trillion. Retailing is also one of the biggest contributors to the Gross Domestic Product (GDP) of most countries and also one of the biggest employers in India, however, the retail sector has seen a high level of fragmentation with a large share held by unorganized players. India has a large number of retail enterprises. With close to 12 million retail outlets India has one of the highest retail densities in the world. At year end of 2006 the size of the Indian organized retail industry is estimated at Rs. 25,000 crore. Today retail is one of the growing industries in India and its contribution is everywhere like in FMCG, cloth, textile and fashion, durables and mobiles, food service, jewellery and footwear services etc. The concept is all things available under one roof that is organized retail and there is a big difference between organized retail and unorganized retail. This paper focuses on the theoretical underpinning of the organized & unorganized retailing and its emergence. It also focuses on the changing effect of customer behavior from unorganized retail to organized retail.

Keywords: retail, organized retail, unorganized retail

Introduction

The word 'retail' is derived from the French word 'retailleur' meaning 'to cut a piece off' or 'to break bulk'. In simple terms it involves activities whereby products or services are sold to final consumers in small quantities. Although retailing in its various formats has been around our country for many decades, it has been confined for a long time to family-owned corner shops. Englishmen are great soccer enthusiasts, and they strongly think that one should never give Indians a corner. It stems from the belief that, if you give an Indian a corner, he would end up setting a shop. That is how great Indian retail management skill is considered.

Indian retailing is unorganized and due to its feudal structure and inefficiency, the need for organized retailing is being felt day by day. Organized retailing not only provides better customer services but also facilitates easy and smooth handling for the government. At the same point of time if FDI is also approved in Indian retailing, it would not only streamline the retailing of India, but would further accelerate expansion of markets. There is enormous scope for foreign players in Indian economic conditions, and if somehow FDI be attracted it would supplement not only the customers by better services but also the government by capital inflow, generating employment and by becoming a big source of tax revenue.

Retail is the world's largest industry with global retail sales of roughly USD 8 trillion. Retailing is also one of the biggest contributors to the Gross Domestic Product (GDP) of most countries and also one of the biggest employers in India, however, the retail sector has seen a high level of fragmentation with a large share held by unorganized players. India has a large number of retail enterprises. With close to 12 million retail outlets India has one of the highest retail densities in the world. At year end of 2006 the size of the Indian organized retail industry is estimated at Rs. 25,000 crore. Today retail is one of the growing industries in India and its contribution is everywhere like in FMCG, cloth, textile and fashion, durables and mobiles, food service, jewellery and footwear services etc. The concept is all things available under one roof that is organized retail and there is a big difference between organized retail and unorganized retail.

Changing trends from unorganized retail to organized retail

In the last five years (2001-2006) Indian retailing industry has seen exceptional augmentation. Where the country was in the dominance of unorganized retailing, the organized retailing sector has now emerged in a momentous way and is contributing significantly to the growth of Indian retail sector. It is predicted that organized retail will form 10% of total retailing by the end of this decade (2010). Cultural and regional disparity in India is the major challenge in the face of retailers. Due to this factor the retailers in India are deterred from adopting a distinct retail format. And so there is a scope for a variety of formats to co-exist in India.

The graph above shows the comparison of how the organized retail sector has penetrated various countries around the globe. We can see that India has the lowest share in the organized retail sector as compared to other countries. And hence the scope for its growth in the coming years is imperative. The urban section of the country is witnessing a major growth in organized

retailing. Almost 85% of the growth is in this sector. And out of this more than 60% of the development is in the metros. The southern part of the country is observing a faster growth rate than the northern states. The total retail market in south India is \$94 billion and of this organized retail is \$8.5 billion. In southern part of India the organized retail market growth is estimated as 35 per cent per annum.

There has been a magnanimous increase in the entrants in the organized retailing sector. Where Reliance Industries Limited plans to invest US\$ 6 billion in this sector by opening 1500 supermarkets and 1000 hypermarkets, Bharti Telecoms is planning a joint venture worth £ 750 million with Tesco a global retail giant. Pantaloons too are planning to invest US\$ 1 billion in order to increase its retail space to 30 million square feet. Such colossal stashing of funds in one particular sector promises a quick growth in the coming years.

Global retail giants are also inflowing the retail industry in India. Names like Wal-Mart, Tesco, Carrefour SA, Metro AG etc would soon find significant places in the Indian retail scenario.

Tier II cities are no longer behind in the race in the development of retail space specially the malls. The government of states like Delhi and National Capital Region (NCR) are very optimistic about sanctioning the use of land for commercial development thus escalating the accessibility of land for retail space; thus making NCR provide to 50% of the malls in India.

Key players currently operating in the Indian retail industry include Future Group, Trent Ltd, RPG Enterprise, Vishal Retail Ltd, Shoppers Stop Ltd, Bata India Ltd, Provogue India Ltd, Videocon Appliances Ltd., I.T.C. Ltd, Godrej Agrovert Ltd, and DCM - Hariyali Kisaan Bazaar.

Origins of Retail

It is likely that, as markets became more permanent fixtures they evolved into shops. Although advantageous in many respects, this removed the mobility that a peddler or traveling merchant may still have enjoyed. For some shopkeepers, it made sense to obtain extra stock and open up another shop, most probably operated by another family member. This would recover business from peddlers and create new business and the greater volume would allow the shopkeeper to strike a better deal with suppliers. Thus the retail chain would have started. Its thought that this process would have started in china over 2200 years ago with a chain of shops owned by a trader called Lo Kass.

The First Self-Service Store

This all changed in 1915 when Albert Gerrard opened the Groceteria in Los Angeles, the first documented self-service store. This was soon followed a year later by the Piggly Wiggly® self-service store, founded by Clarence Saunders in Tennessee in the U.S.

Unorganized retailing in India

In India, the most of the retail sector is unorganized. In India, the retail business contributes around 11 percent of GDP. Of this, the organized retail sector accounts only for about 3 percent share, and the remaining share is contributed by the unorganized sector. 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, has very low real estate and labor costs and has low taxes to pay.

Organized retailing in India

In late 1990's the retail sector has witnessed a level of transformation. Retailing is being perceived as a beginner and as an attractive commercial business for organized business i.e. the pure retailer is starting to emerge now. Organized retail business in India is very small but has tremendous scope. The total in 2005 stood at \$225 billion, accounting for about 11% of GDP. In this total market, the organized retail accounts for only \$8 billion of total revenue. According to A T Kearney, the organized retailing is expected to be more than \$23 billion revenue by 2010.

In organized retailing will grow faster than unorganized sector and the growth speed will be responsible for its high market share, which is expected to be \$ 17 billion by 2010-11.

Retailing will show good prospects in cities like Mumbai, Delhi, Chennai, kolkata, Banglore and Kanpur. After Dubai, Singapore and Hong Kong, In India Delhi will be the next big retail destination, According to Confederation of Indian Industries whose findings have shown that Delhi has the good resources and good conditions for the retail sector. Out of the total earnings of the Government of Delhi Rs 11,000 crore, Rs 6,500 crore is achieved from the retail sector.

The organized sector is expected to grow faster than GDP growth in next few years driven by favorable demographic patterns, changing lifestyles, and strong income growth. This organized retail sector mix includes supermarkets, hypermarkets discounted stores and specialty stores, departmental stores. For example, Spencer network has 69 stores, which includes seven Spencer hypermarkets, three Spencer super markets and 49 Spencer Daily's. Now the company is planning to open 20 stores in 10 cities in six months. The top 10 retailers account only for 2% of total market, today modern retailing is

expected to enter a boom phase, which has major players and these players might capture 10% of total market, within next five years. The retail sales in India for future are shown below (data from 2005-2008 is based on estimates):

FACTORS AFFECTING THE GROWTH OF RETAIL IN INDIA:

With the upcoming concept of organized retailing, now for last few years, the Indian market is witnessing the organized retail giants, capturing the major space even in urban and rural markets. The paradigm shift was caused due to following causes:

- Demographic factors- The increase in the population and specially in the age group of 20-40 years and they have a tremendous purchasing capacities.
- Life styles-The change in the life style in life of Indians have shifted to western values and culture.
- Literacy-The advent of new literacy programmes and the increase in educational and literary values have made changes in the buying behaviour.
- Better disposable income of the customers-The increase in GDP and increase in Income of the consumers has paved the path for the development of new shopping malls.

PROBLEMS IN ORGANISED RETAILING:

The obstacles that are hindering the path of development of Retail outlets are being described as follows-

1. The organized retail industry in India is faced with stiff competition from the unorganized sector.
2. There is a shortage of quality real estate and infrastructure requirements in our country.
3. Opposition to Foreign Direct Investment from small traders affects retail industry.
4. Very high stamp duties on transfer of property affects the industry.
5. Shortage of retail space in central and downtown locations also hinders the growth of retail industry.
6. Presence of strong Pro-tenancy laws makes it difficult to evict tenants and this is posing problems.
7. Land-use conversion is time consuming and becoming complex.
8. For settling property disputes, it consumes lot of time.
9. Rigid building laws makes procurement of retail space difficult.
10. Non residents are not allowed to own property except they are of Indian origin.
11. Prohibition of Foreign investment in real estate business.
12. Customs duties are levied on import of goods in India.

Growth factors 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% of India's population is under the age of 20; and this will increase to 55% 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.

The future trends of the retail sector of Indian economy:

- The retail sector of Indian economy will grow up to 10% of total retailing by the year 2010.
- No one single format can be assumed as there is a huge difference in cultures regionally.
- The most encouraging format now would be the hypermarkets
- The hypermart format would be further encouraged with the entry of the TNC's
- Inflation and the global meltdown have had an effect on the growth of retailing in India. Experts believe the retail industry should focus on distinction, branding, after sales service, exploring commoditization, share of purchasing power and innovation to tide over the crisis.

- The year 2009 is seen as a year of consolidation for Indian retail sector. By ushering in best practices and restructuring business models, the retail industry in India is expected to adjust to the changing market conditions and ensure new opportunities for growth.
- The retail sector is expected to grow at 8 to 12 per cent in 2009-2010.

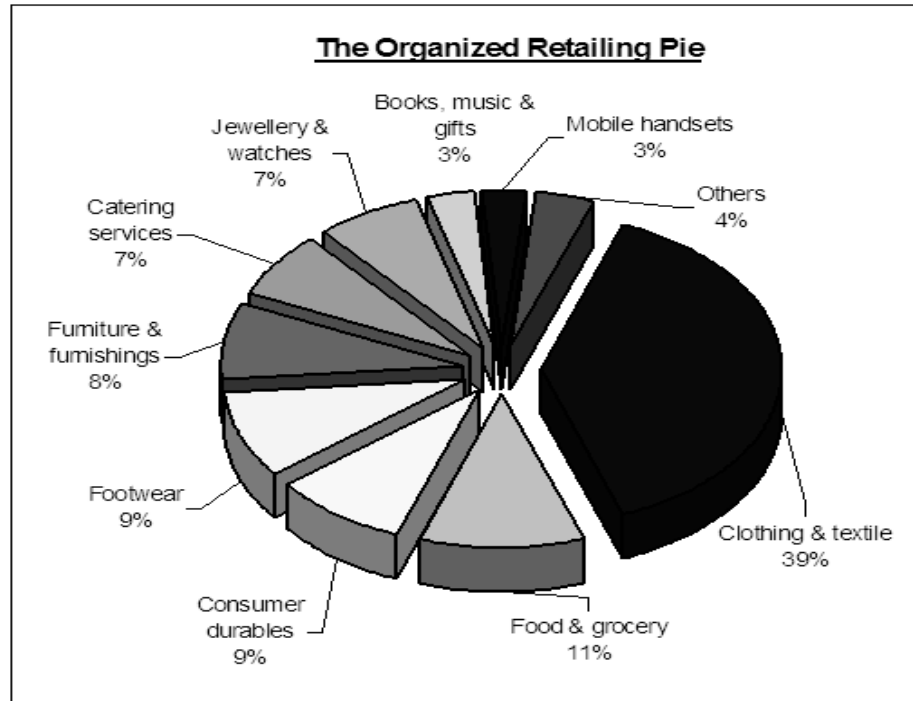
CONCLUSION

Today retail is one of the growing industry in India and its contribution is every where like in FMCG, cloth, textile and fashion, durables and mobiles, food service, jewellery and footwear services etc. the concept is all things available under one roof. Retailing in India is becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retail has entered India as seen in sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all available under one roof. The Indian retailing sector is at an inflexion point where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth trajectory. The Indian population is witnessing a significant change in its demographics. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector are going to be the key growth drivers of the organized retail sector in India. Retail and real estate are the two booming sectors of India in the present times. And if industry experts are to be believed, the prospects of both the sectors are mutually dependent on each other. Retail, one of India's largest industries, has presently emerged as one of the most dynamic and fast paced industries of our times with several players entering the market. Accounting for over 10 per cent of the country's GDP and around eight per cent of the employment retailing in India is gradually inching its way toward becoming the next boom industry.

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Appendix I



Appendix II

Different organized retail formats in india

Format	Description	The Value Proposition
Branded Stores	Exclusive showrooms either owned or franchised out by a manufacturer.	Complete range available for a given brand, certified product quality
Specialty Stores	Focus on a specific consumer need, carry most of the brands available	Greater choice to the consumer, comparison between brands is possible
Department Stores	Large stores having a wide variety of products, organized into different departments such as clothing, house wares, furniture, appliances, toys, etc.	One stop shop catering to varied/ consumer needs.
Supermarkets	Extremely large self-service retail outlets	One stop shop catering to varied consumer needs
Discount Stores	Stores offering discounts on the retail price through selling high volumes and reaping economies of scale	Low Prices
Hyper-mart	Larger than a supermarket, sometimes with a warehouse appearance, generally located in quieter parts of the city	Low prices, vast choice available including services such as cafeterias.
Convenience stores	Small self-service formats located in crowded urban areas.	Convenient location and extended operating hours.
Shopping Malls	Enclosure having different formats of in-store retailers, all under one roof.	Variety of shops available to each other.