

The Scenario of Retail Market in India: An Analysis

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Abstract

The retail sector in India is witnessing a huge revamping exercise as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and speciality stores. Western style malls have begun appearing in metros and second rung cities a like introducing the Indian consumer to a shopping experience like never before.

1. Introduction

The Retail sector has become one of the most dynamic growing sectors in recent times. Retailing has always been an integral part of economic development. Nations with strong retail activity have enjoyed greater economic and social progress. It contributes to the development by matching the individual requirements of the population with the producers and suppliers of merchandise. It is a clear indication of the spending pattern of the consumers of a country. By bringing the product to the customers, they are helpful in creation of demand of new offers leading to the expansion of market. The Indian retail industry is not only one of the most fragmented in the world but also the most challenging due to its unorganized nature. In its nature, the Indian retail market is in sharp contrast to the global situation. Retailing in India is one of the pillars of its economy and accounts for 15% of its GDP. The Indian Retail Market is estimated to be US\$450 billion and one of the top five retail market in world by economic value. The Indian Retail Market has the largest retail outlet density in the World. However, most of these outlets are basic mom-and-pop stores with very basic offerings, fixed prices, and no ambience.

Organized and established retail chains comprise only 4% of the Indian market. India's remaining 96% market is comprised of 12

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million mom-and-pop shops. India is the largest Asian economy to liberalise its retail sector.

Retailing was established in Hawaii in the early 19th Century but grew somewhat slowly as much of the economy centered around plantations rather than diversified businesses and occupations.

In the early 20th Century, retailing began to diversify along with the economy. Locally operated stores such as Arakawas and Star Market emerged in this period. In the 1930s, Hawaii retailers experienced their first taste of serious mainland competition with the entrance of small department stores. The first Wal mart followed in 1994. New concepts in shopping centres included a combination of locally oriented big box retailers & visitor-oriental factory outlet stores.

The term 'Retailing' refers to any activity that involves a sale to an individual customer. Retailing is the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as government and other bulk customers.

The retail industry is of late often being hailed as one of the sunrise sectors in the economy. At Kearny, the well known international management consultancy, recently identified India as the "Second most attractive destination" globally from among thirty emergent markets.

In India, the unorganized retailing sector comprises of 96% while that of organized sector is just 4% that is mainly in major metropolitan and urban areas. Indian retailing traditionally was dominated by a small family run "Kirana" store. Retail in India is the second largest untapped market after China.

Professional Management & strong, customer focus characterize organized retailing. Despite the huge size of the industry, only 8% of the country's population is engaged in retailing while that in United States of America, it is 20%.

The positive factor such as increased purchasing power, rise in number of double income families and demanding customers, due to change in life style and paucity of time, customers are increasingly looking for convenience. To woo the customers to the store, retailers are providing a wide product range, quality and value for money, apart from creating a memorable shopping experiences.

Industrial houses have taken to retailing and have set up retail chains. The likes of R.P. Goenkas, Nandas, K Rahejas, Tata, Birlas, Piramals, ITC, Ambanis, find a place in the list. Many others have worked out their plan and are likely to enter the line in the next couple of months.

The retail sector in India is witnessing a huge revamping exercise as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and speciality stores. Western style malls have begun appearing in metros and second rung cities a like introducing the Indian consumer to a shopping experience like never before.

The sector is at an inflexion point where the growth of or ret 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. The growth is boosted by various factors such as availability of professional practices, media proliferation, various factors such as availability of professional practices, media proliferation, various brands which are gaining value thereby enhancing industry growth, availability of various funding options, regulations like VAT implementation to make processes simple, sea change in demographics of country and international exposure.

2. Retailing in India

Retailing is one of the pillars of the economy in India and accounts for 15% of GDP. The retail industry is divided into organized and an organized sectors. Over 12 million outlets operate in the country and only 4% of them being larger then 500 Sq. Fts. (46m2) in size.

Organized Retailing

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 business.

Unorganized Retailing

Unorganized Retailing on the other hand refers to the traditional formats of low cost retailing, for example the local Kirana shops, owner manned general stores, paan/beedi shops, convenience stores hand cart and pavement vendors etc.

Growth

An increasing no. of people in India are turning to the services sector for employment due to the relative low compensation offered by the traditional agriculture and manufacturing sectors. The organized retail market is growing at 35% annually while growth of unorganized retail sector is pegged at 6%.

The Retail Business in India is currently at the point of inflection. Rapid change with investment to the tune of US \$25 billion is being planned by several Indian and multinational companies in the next 5 years. It is a huge industry in terms of size and according to management consulting.

3. The Indian Retail Market

Indian market has high complexities in terms of a wide geographic spread and district 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. Fts. (0.19m2)/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 45 lakh. Delving further into consumer buying habits purchase decisions can be separated into two categories status oriented and indulgence – oriented. CTVs/LCDs refrigerators, washing machines, microwave ovens and DVD players fall in the status category. Indulgence oriented

products include plasma TV state of the art home theatre systems, high digital cameras, camcorders and gaming consoles. Consumers in the status category buy because they need the maintain a position in their social group. Indulgence oriented buying happens with those who want to enjoy life better with products that meet their requirements. When it comes to the festival shopping season, it is primarily the status oriented segment that contributes largely to the retailers cash register. The break up of organized retailing sales into various product categories Books, Music & Gifts 3% Mobile handsets, 3% Clothing & Textile, 39% Food & Grocery, 11% consumer durables, 9% Footwear, 9% Furniture & Furnishing, 8% Catering Services, 7% Jewellery & Watches 7%, others 4%. Organized retail is expected to garner about 16 – 18 percent of the total retail market (US \$65-75 billion) in the next 5 years.

Indian has topped the A.T. Kearney's annual Global Retail Development Index (GRDI) for the consecutive year maintaining its position as the most attractive market for retail investment. The Indian economy has registered a growth of 8% for 2007. The predictions for 2008 is 7.9%. The enormous growth of the retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace and by 2012, 500 malls are estimated to be operational in the country. With over 1000 hypermarkets and 3000 supermarkets projected to come up by 2012, India will need additional retail space of 700,000,000 Sq. Ft. (65,000,000m²) as compared to today. Current projections on constructions points to a supply of just 200,000,000 Sq. Ft. (19,000,000m²) leaving a gap of 500,000,000 Sq. Ft. (46000,000m²) that needs to be filled, at a cost of US \$15-18 billion.

According to the Jerier report – the retail business in Indian is estimated to grow at 13% from \$322 billion in 2006-07 to \$590 billion in 2011-12. The unorganized retail sector is expected to grow at about 10% per annum with sales expected to rise from \$309 billion in 2006-07 to \$496 billion in 2011-12.

4. Concept of Retailing

Retail comes from the French word retailer which refers to cutting off clip and divide in terms of tailoring (1365). It was first recorded as a noun with the meaning of a sale in small quantities in 1433 (French). Its literal meaning for retail was to cut off, shred, paring. Like the French, the world retail in both Dutch and German also refer to sale of small quantities of items.

Retailing consists of sale of goods or merchandise from a fixed location, such as a department store or Kiosk, or by post in small or individual lots for direct consumption by the purchasers. Retailing may include subordinated services, such as delivery. Purchasers may be individuals or businesses. In commerce, a retailer buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end user. Retail establishments are often called shops or stores. Retailers are at the end of the supply chain. Manufacturing marketers see the process of retailing as a necessary part of their overall distribution strategy.

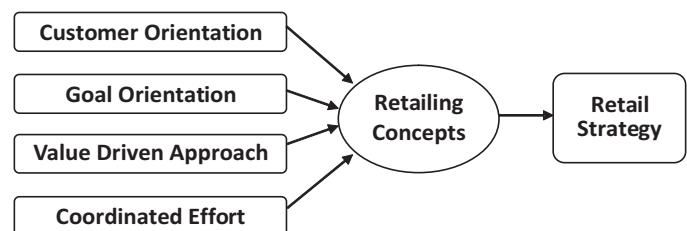
Shops may be on residential streets, shopping streets with few or no houses, or in a shopping center or mall. Shopping streets may

be for pedestrians only. Sometimes a shopping street has a partial or full roof to protect customers from precipitation. Online retailing, also referred to as B2C type of e-commerce and mail order are forms of non shop retailing.

Shopping generally refers to the act of buying products. Sometimes this is done to obtain necessities such as food and clothing, sometimes it is done as a recreational activity. Recreational shopping after involves window shopping (just looking not buying) and browsing and does not always result in a purchase.

It is essentially the marketing concept of a customer - centred, company wide approach to developing and implementing a strategy. It provides the guidelines, which must be followed by all retailers irrespective of their size, channel design & medium of selling. The selling concept covers four broad areas and is an essential part of the retailing strategy

Model showing concept of Retailing



In the above figure a good retail strategy is where the retailing concept includes customer orientation, goal orientation, value driven approach and coordinated effort.

- A. **Customer Orientation:** The retailer makes a careful study of the needs of the customer and attempts to satisfy those need.
- B. **Goal Orientation:** The retailer has clean out goals and demises strategies to achieve those goals.
- C. **Value driven approach:** The retailer offers good value to the consumer with merchandise having the price and quality appropriate for the target market.
- D. **Coordinated effort:** Every activity of the firm is aligned to the goal and is designed to maximize its efficiency and deliver value to the consumer.

The retailing concept, though simple to adopt, is not followed by many retailers who neglect one or more of the points enumerated above. There must be a proper balance of all aspects of this concept for the retailer to achieve success.

The retailing concept, while important is limited by its nature as it does not cover the firm's internal capabilities or the competitiveness of the external environment. It however remains an important strategic guide.

The retailing concept can be used to measure the retailers, performance through three parameters: the total retail experience, customer service, and relationship retailing.

The total retail experience refers to all the ingredients of a customer's interaction with the retailers. This includes all

activities from parking to billing. If some parts of the retail experience are unsatisfactory, the shopper may decide not to patronize that particular outlet. Therefore, it is necessary for a retailer to ensure that every element in the experience must aim at fulfilling customer expectations. Customer service refers to the tangible and intangible activities undertaken by a retailers in combination with the basic goods and services it provides. It is part of the value – driven approach adopted by retailers in a bid to differentiate themselves and occupy a strategic position. The concept of lifetime value of consumers is employed in relationship marketing. Retailers need to establish relationship with existing customers to motivate them to return regularly. The outgoing process of identifying and creating new value with individual customers over the lifetime of a relationship is relationship marketing. It is mutually beneficial in nature creating a win-win solution for both the retailer and the consumer by allowing the retailer to be profitable and giving the consumer value. This is especially important because it is much harder to attract new customer than it is to retain old once. It is a blend of product, quality and services.

5. Conclusion

The Indian Retail Market has a lot of potential for growth. According to the report 'Expanding Opportunities for Global Retailers', released by A T Kearney, the Indian retailmarket is expected to be worth about US\$ 410 billion, with 5 per cent of sales through organised retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly-up to US\$ 535 billion in 2013, with 10 per cent coming from organised retail, reflecting a fast-growing middle class, demanding higher quality shopping environments and stronger brands,

The BMI India Retail Report for the first-quarter of 2011 forecasts that total retail sales will grow from US\$ 392.63 billion in 2011 to US\$ 674.37 billion by 2014. Strong underlying economic growth, population expansion, the increasing wealth of individuals and the rapid construction of organised retail infrastructure are key factors behind the forecast growth. With the expanding middle and upper class consumer base, there will also be opportunities in India's tier II and III cities.

Mass grocery retail (MGR) sales in India are expected to undergo enormous growth over theforecast period. BMI predicts that sales through MGR outlets will increase by 145 per cent to reach US\$ 21.35 billion by 2014.

China and India are predicted to account for more than 91 per cent of regional retail sales in 2011, and by 2014 their share of the regional market is expected to be more than 92 per cent. Growth in regional retail sales for 2011-2014 is forecast by BMI at 48.1 per cent, an annual average 15 per cent.

According to a McKinsey & Company report titled 'The Great Indian Bazaar: OrganisedRetail Comes of Age in India', organised retail in India is expected to increase from 5 per cent of the total market in 2008 to 14 - 18 per cent of the total retail market and reach US\$ 450 billion by 2015.

The Government should pay more attention on the development of the Indian Retail sector bringing more reforms for attracting more capital investment in the sector.

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