

Retail in India: A Study on Challenges, Opportunities & Trends in Retailing

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Abstract- Retailing, it's carried out by retailer who try to satisfy consumer needs by providing the link between them and the manufacturer. Retailing today occupies a key role in the world economy structure but very much a part of our lives. The new age of organized retailing is evolving throughout the globe in high tech business. India is not an exception Indian retail brand are also knock the Indian foreign shores recently. Retailing in India is gradually inching its way towards becoming the boom industry and also to build brand loyalty in every mind of customer. India is a fifth largest retail destination globally with the most attractive emerging market for investment in retail sector. Moreover Some challenges for retail sector are high cost of real estate, restriction in Foreign direct investment, shortage of trained manpower, low retail management etc. This paper provide a conceptual framework to identify the major Indian player in retail sector, challenges and trends of retail in India.

KeyWords :-Hyper mart, MOM and POP stores, E-trailers, Merchandisers

I INTRODUCTION

Indian economy has shown an impressive growth of over 6 per cent for last five years and continues to surge ahead. GDP growth rate in 2003-04 recorded a fifteen year high of 8.5% and subsequently maintained a steady growth for the next two years. Real GDP growth accelerated from 7.5 per cent during 2004-05 to 8.4 per cent during 2005-06 on the back of buoyant manufacturing and services activity supported by a recovery in the agricultural sector. The central bank forecasts similar growth of 7.5-8 percent during 2006-07. With strong economic growth consumerism is increasing in the country and India is the fourth largest economy as far as purchasing power parity is concerned, just behind USA, Japan and China. (The Economic Times 27 June, 2007)

Retailing in India is receiving global recognition and attention and this emerging market is witnessing a significant change in its growth and investment pattern. It is not just the global players like Wal-Mart, Tesco and Metro group are eyeing to capture a pie of this market but also the domestic corporate players like Reliance, KK Modi, Aditya Birla group, and Bharti group too are also the runner in marathon of retail development. Reliance, announced that it will invest \$3.4 billion to become the country's largest modern retailer by establishing a chain of 1,575 stores by March 2007. The last couple of years have been rosy for real estate developers and the retailers are finding suitable retail space in prominent locations. There is increased sophistication in the shopping pattern of consumers, consumer tastes and preferences are changing, radical alteration in life styles and strong surge in income which has resulted in big retail chain coming up in most metros, mini metros and towns being the next target. As a result the industry is buoyant about growth and the early starters are in the expansion mood. Companies need to be dynamic and proactive while responding to the ever-changing trends in consumer lifestyle and behavior.

Retailing in India is currently estimated to be a USD 200 billion industry, of which organised retailing makes up 3 percent or USD 6.4 billion. By 2010, organised retail is projected to reach USD 23 billion and in terms of market share it is expected to rise by 20 to 25 per cent.

On one hand favorable demographic and psychographic changes in the Indian consumer class, rising income, international exposure, availability of quality retail space, wider brand choice and better marketing communication are some of the factors driving Indian retail. On the other side a lot depends on the preparedness of Indian retailers in terms of having suitable formats, scalable business model, appropriate technology and relevant organization capability for the success. This paper identifies the challenges, opportunities and trends in retailing in India.

Retail Scenario in India : Review of literature

As the corporates – the Piramals, the Tatas, the Rahejas, ITC, S.Kumar's, RPG Enterprises, and mega retailers- Crosswords, Shopper's Stop, and Pantaloons race to revolutionize the retailing sector, retail as an industry in India is coming alive. Retail sales in India amounted to about Rs.7400 billion in 2002, expanded at an average. Annual rate of 7% during 1999-2002. With the upturn in economic growth during 2003, retail sales are also expected to expand at a higher pace of nearly 10%. Across the country, retail sales in real terms are predicted to rise more rapidly than consumer expenditure during 2003-08. The forecast growth in real retail sales during 2003- 2008 is 8.3% per year, compared with 7.1% for consumer expenditure. Modernization of the Indian retail sector will be reflected in rapid growth in sales of supermarkets, departmental stores and hypermarkets. (The Economic Times Feb 2, 2008)

India is currently having the largest young population in the world and 54 per cent of India's population is below 25 years of age and 80 per cent are below 45 years. As per India's *Marketing White book* 2006 by Business world, India has around 192 million households. Of these only a little over six million are 'affluent' – that is, with household income in excess of INR215, 000. Another 75 million households are in the category of 'well off' immediately below the affluent, earning between INR45,000 and INR215,000. This is a sizable proportion which offers excellent opportunity for organized retailers to serve.

AC Nielsen's Retail and Shopper Trends 2004 Report made the following observations on shopper's behavior in India:

(1) Indian shoppers spend an average of INR2500 on food, groceries and personal care items every month.

(2) Convenience stores are booming in most markets, as the number of such stores exceeds 80,000.

According to the report(Business Today Nov,6,2003) 48 per cent of shoppers in India admit that they 'love to try new things', making them the most novelty seeking shoppers around the region and total average monthly expenditure is only \$50, of this, \$21 is spent on fresh food, comprising 42 per cent of the entire monthly spend. Indians also appear to spend more on groceries and personal care items.

Sales from these large-format stores are to expand at growth rates ranging from 24% to 49% per year during 2003-2008, according to a latest report by Euro monitor International, a leading provider of global consumer-market intelligence.

A.T. Kearney Inc. places India 6th on a global retail development index. The country has the highest per capita outlets in the world - 5.5 outlets per 1000 population. Around 7% of the population in India is engaged in retailing, as compared to 20% in the USA.

In a developing country like India, a large chunk of consumer expenditure is on basic necessities, especially food-related items. Hence, it is not surprising that food, beverages and tobacco accounted for as much as 71% of retail sales in 2002. The share of foodrelated items had, however, declined over the review period, down from 73% in 1999. This is not unexpected, because with income growth, Indians, like consumers elsewhere, have started spending more on non-food items compared with food products. Sales through supermarkets and department stores are small compared with overall retail sales. Nevertheless, their sales have grown much more rapidly, at almost a triple rate (about 30% per year during the review period). This high acceleration in sales through modern retail formats is expected to continue during the next few years, with the rapid growth in numbers of such outlets due to consumer demand and business potential.

The factors responsible for the development of the retail sector in India can be broadly summarized as follows:

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

Looking at income classification, the National Council of Applied Economic Research (NCAER) classified approximately 50% of the Indian population as low income in 1994- 95; this is expected to decline to 17.8% by 2006-07.

- Liberalization of the Indian economy which has led to the opening up of the market for consumer goods has helped the MNC brands like Kellogs, Unilever, Nestle, etc. to make significant inroads into the vast consumer market by offering a wide range of choices to the Indian consumers.

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

- 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. As India continues to get strongly integrated with the world economy riding the waves of globalization, the retail sector is bound to take big leaps in the years to come.

A study conducted by Fitch, expects the organized retail industry to continue to grow rapidly, especially through increased levels of penetration in larger towns and metros and also as it begins to spread to smaller cities and B class towns. Fuelling this growth is the growth in development of the retail-specific properties and malls. According to the estimates available with Fitch, close to 25mn sq. ft. of retail space is being developed and will be available for occupation over the next 36-48 months. Fitch expects organized retail to capture 15%-20% market share by 2010.

A McKinsey report on India says organised retailing would increase the efficiency and productivity of entire gamut of economic activities, and would help in achieving higher GDP growth. At 6%, the share of employment of retail in India is low, even when compared to Brazil (14%), and Poland (12%).

Emerging formats of retailing in India

- **Hyper marts**:- Vast self-service warehouse-cum-retail outlet that combines the features of a supermarket, department store, discount store, and specialty store in one location called hyper mart..

- **Large supermarkets**, typically (3,500 - 5,000 sq. ft):-A large self-serviced retail market that sells food and household goods.

- **Mini supermarkets**, typically (1,000 - 2,000 sq. ft):- A retail store, usually located in a rural community, that sells a wide variety of merchandise but is not divided into departments.

- **Convenience store**, typically (7,50 - 1,000 sq. ft):-A small retail store that is open long hours and that typically sells staple groceries, snacks, and sometimes gasoline.

- **Discount/shopping list grocer**:- A list of heterogeneous items that someone wants; "the union came to the table with a whole grocery list of demands"

- Traditional retailers trying to reinvent by introducing self-service formats as well as value-added services such as credit, free home delivery etc.

- **Malls** :- Collection of independent retail stores, services, and parking areas constructed and maintained by a management firm as a unit.

Types of Retailers

The Indian retail sector can be broadly classified into.

a) FOOD RETAILERS

There are large number and variety of retailers in the food-retailing sector. Traditional types of retailers, who operate small single-outlet businesses mainly using family labour, dominate this sector. In comparison, super markets account for a small proportion of food sales in India. However the growth rate of super market sales has being significant in recent years because greater numbers of higher income Indians prefer to shop at super markets due to higher standards of hygiene and attractive ambience.

b) HEALTH & BEAUTY PRODUCTS

With growth in income levels, Indians have started spending more on health and beauty products. Here also small, single-outlet retailers dominate the market. However in recent years, a few retail chains specializing in these products have come into the market. Although these retail chains account for only a small share of the total market, their business is expected to grow significantly in the future due to the growing quality consciousness of buyers for these products.

c) CLOTHING & FOOTWEAR

Numerous clothing and footwear shops in shopping centers and markets operate all over India. Traditional outlets stock a limited range of cheap and popular items; in contrast, modern clothing and footwear stores have modern products and attractive displays to lure customers. However, with rapid urbanization, and changing patterns of consumer tastes and preferences, it is unlikely that the traditional outlets will survive the test of time.

d) HOME FURNITURE & HOUSEHOLD GOODS

Small retailers again dominate this sector. Despite the large size of this market, very few large and modern retailers have established specialized stores for these products. However there is considerable potential for the entry or expansion of specialized retail chains in the country.

e) DURABLE GOODS

The Indian durable goods sector has seen the entry of a large number of foreign companies during the post liberalization period. A greater variety of consumer electronic items and household appliances became available to the Indian customer. Intense competition among companies to sell their brands provided a strong impetus to the growth for retailers doing business in this sector.

f) LEISURE & PERSONAL GOODS

Increasing household incomes due to better economic opportunities have encouraged consumer expenditure on leisure and personal goods in the country.

There are specialized retailers for each category of products (books, music products, etc.) in this sector. Another prominent feature of this sector is popularity of franchising agreements between established manufacturers and retailers.

Growth of Indian Retail Sector

According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, India retail industry is the most promising emerging market for investment. In 2007, the retail trade in India had a share of 8-10% in the GDP (Gross Domestic Product) of the country. In 2009, it rose to 12%. It is also expected to reach 22% by 2010. According to a report by Northbridge Capita, the India retail industry is expected to grow to US\$ 700 billion by 2010. By the same time, the organized sector will be 20% of the total market share. It can be mentioned here that, the share of organized sector in 2007 was 7.5% of the total retail market

Challenges of Retailing in India

The retailers in India have to learn both the art and science of retailing by closely following how retailers in other parts of the world are organizing, managing, and coping up with new challenges in an ever-changing marketplace. Indian retailers must use innovative retail formats to enhance shopping experience, and try to understand the regional variations in consumer attitudes to retailing. Retail marketing efforts have to improve in the country advertising, promotions, and campaigns to attract customers; building loyalty by identifying regular shoppers and offering benefits to them; efficiently managing high-value customers; and monitoring customer needs constantly, are some of the aspects which Indian retailers need to focus upon on a more pro-active basis.

In the last we can say that Retailing as an industry in India has still a long way to go. But to become a truly flourishing industry, retailing needs to face the following challenges effectively and efficiently.

- Automatic approval is not allowed for foreign investment in retail.
- Regulations restricting real estate purchases, and cumbersome local laws.
- Taxation, which favors small retail businesses.
- Absence of developed supply chain and integrated IT management.
- Lack of trained work force.
- Low skill level for retailing management.
- Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.

Opportunities in Indian Retail Sector

The retail industry in India is currently growing at a great pace and is expected to go up to US\$ 833 billion by the year 2013. It is further expected to reach US\$ 1.3 trillion by the year 2018 at a CAGR of 10%. As the country has got a high growth rates, the

consumer spending has also gone up and is also expected to go up further in the future. In the last four year, the consumer spending in India climbed up to 75%. As a result, the India retail industry is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40%. According to Indian experts these major opportunities are available in Indian retail sector.

- Australia's Retail Food Group is planning to enter the Indian market in 2010. It has ambitious investment plans which aim to clock revenue of US\$ 87 million from the country within five years from start of operations.
- British retail major Marks & Spencer (M&S) is looking at scaling up its India operations and plans to open at least 50 more outlets in the country over the next few years.
- Koutons Retail India plans to open 200 stores in FY11 in addition to its existing 1,400. Of the 200 stores, 100 would be family concept stores, which would include women and children's wear.
- Reliance Footprint, part of Reliance Retail, plans to spend US\$ 86.62 million to add 100 outlets across the country in two years to sell branded footwear. It currently has 16 outlets.
- Retail chain Suvidhaa Infoserve plans to open 1,000-1,200 new outlets every month across the country and is eyeing a 100,000 strong network in the next two to three years. At present, the Mumbai-based firm has 18,000 convenient neighbourhood stores called 'Suvidhaa Point' across the country in over 20 states and over 400 cities.
- Lifestyle International, part of the Dubai-based US\$ 1.5 billion Landmark Group, plans to have over 50 stores across India by 2012-13. These will include 35 Lifestyle stores for retailing apparel, cosmetics and footwear, besides 15 Home Centres that sell home furnishing goods.
- Watch maker, Timex India, is looking at increasing its presence in the country by adding another 52 stores by March 2011 at an investment of US\$ 1.3 million taking its total store count to 120.
- Wills Lifestyle plans to expand its operations by opening 100 new stores in the next three years. It also plans to concentrate on online buyers.
- Pantaloon Retail India (PRIL) is planning to invest US\$ 77.88 million this fiscal to add up to 2.4 million sq ft retail space at its existing operations. Pantaloon Retail is also looking to hive off its value retail chain, Big Bazaar, into a separate subsidiary, which may eventually go for an initial public offer (IPO). PRIL proposes to open 155 Big Bazaar stores by 2014, increasing its total network to 275 stores.
- Number of shopping malls is expected to increase at a CAGR of more than 18.9 per cent from 2007 to 2015.
- Rural market is projected to dominate the retail industry landscape in India by 2012 with total market share of above 50 per cent.
- Organised retailing of mobile handset and accessories is expected to reach close to US\$ 990 million by 2010.
- Driven by the expanding retail market, the third party logistics market is forecasted to reach US\$ 20 billion by 2010..

II CONCLUSION

In India the retail sector is the second largest employer after agriculture, although it is highly fragmented and predominantly consists of small independent, owner – managed shops .There are over 12 million retail outlets in India , and organised retail trade is worth about Rs.12,90,000 crore The country is witnessing a period of boom in retail trade, mainly on account of a gradual increase in the disposable incomes of the middle and upper-middle class households. More and more corporate houses including large real estate companies are coming into the retail business, directly or indirectly, in the form of mall and shopping center builders and managers. New formats like super markets and large discount and department stores have started influencing the traditional looks of bookstores, furnishing stores and chemist shops. The retail revolution, apart from bringing in sweeping, positive changes in the quality of life in the metros and bigger towns, is also bringing in slow changes in lifestyle in the smaller towns of India. So to conclude ,we can say that India the growth of the organised retail industry in the country will mean thousands of new jobs, increasing income levels and living standards, better products, and services, a better shopping experience, and more social activities.

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