

RETAILING IN INDIA – OPPORTUNITIES FOR GROWTH

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ABSTRACT

This paper provides detailed information about the growth of retailing industry in India. It examines the growing awareness and brand consciousness among people across different socio-economic classes in India and how the urban and semi-urban retail markets are witnessing significant growth. It explores the role of the Government of India in the industries growth and the need for further reforms. In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. The paper includes growth of retail sector in India, strategies, strength and opportunities of retail stores, retail format in India, recent trends, and opportunities and challenges. This paper concludes with the likely impact of the entry of global players into the Indian retailing industry highlighting the challenges faced by the industry in near future.

Keywords: retailing industry, brand consciousness, untapped retail industry, new market.

Introduction

Retailing in India is the most active and attractive business of the human history as it meets all the needs and wants of humanity. Recently it has witnessed so much dynamism with varied products and markets both at the national and at the global level. The increased purchasing power of the consumers, forth coming youthful generation of population, increase in variety of products due to liberalization, and increase in economies of scale has ignited the emergence of modern retailing in India. India is dominated by large number of small retailers consisting of small kiranas, general stores, footwear shops, garment shops, paan and beedi shops. Today these are called as unorganized retail sector. The entry of modern retailing under the name organized format retailing owns only a 5% share of the total retail market. Indian retail industry has become more imperative which can be viewed from the emergence of multi storied malls, huge shopping centers, and sprawling complexes which offers food, shopping and entertainment all under one roof. The retail sector has grown to 40% by 2011 with a business up to \$ 437 billion and is expected to grow up to \$ 800 –billion by 2017.

Of different kinds of organized formats, the gigantic malls have revolutionized the concept of retailing and they pose a serious competition to their conventional counter parts in terms of service, ambience, price, access to the brands etc. malls are huge concrete amusement parks for the middle class in metros. There were just three shopping malls in India by 2007 the growth reached to 343 malls. Shopping mall activity, which was earlier, only phenomenon of the big cities, has started spreading down to small cities and towns i.e. tier-II cities. Of the new malls coming up, 40 per cent are concentrated in the smaller cities. Shopping centre business alone is estimated to become a Rs 40, 000 crore business in India. There are 39 Hypermarkets, 3,200 supermarkets, 400 department stores, and approximately 1,200 mega speciality stores & category killers and 20,000 exclusive brand outlets across the various retail categories. Malls alone will provide an additional 200 million square feet of gross leasable quality retail space (GLA) by 2014 end. This has resulted the Indian consumers to be exposed to a variety of retail formats leading to change in the consumers buying behaviour.

Category wise retailing in India

a) Food and grocery retail

It holds a major share in Indian retailing contributing to 60% and accounting for Rs. 8680 billion in retailing revenue of Rs. 14,574 billion in 2006-07. However, this category is mostly dominated by organised retailers, organised retailing revenue contributed to only Rs. 61 billion (2006-07). The sector is not disturbed and should not be disturbed as the millions of populations depend on the agricultural sector not only in consumption but also traditional farming and cultivation.

b) Clothing & footwear

The clothing and footwear is the second important category in Indian retailing contributing to 20% in 2006-07. In the past few years this sector is attracting international brands like Nike and Adidas in footwear, Zara and Mango in apparel. Also new retailing companies like Shopper's Stop, Pantaloon in apparel and Roche, Metro in footwear etc. are enticing the middle class.

c) Non-institutional Health Care

Non institutional health care is the third biggest category whose share accounted for 8% in 2006-07. A number of corporate companies have already entered the market like RPG group's Health & Apollo pharmacies and Dr. Morepen. They try to float their products with customers at competitive marketing strategies and in person services.

d) Furniture, Furnishing, appliances & services

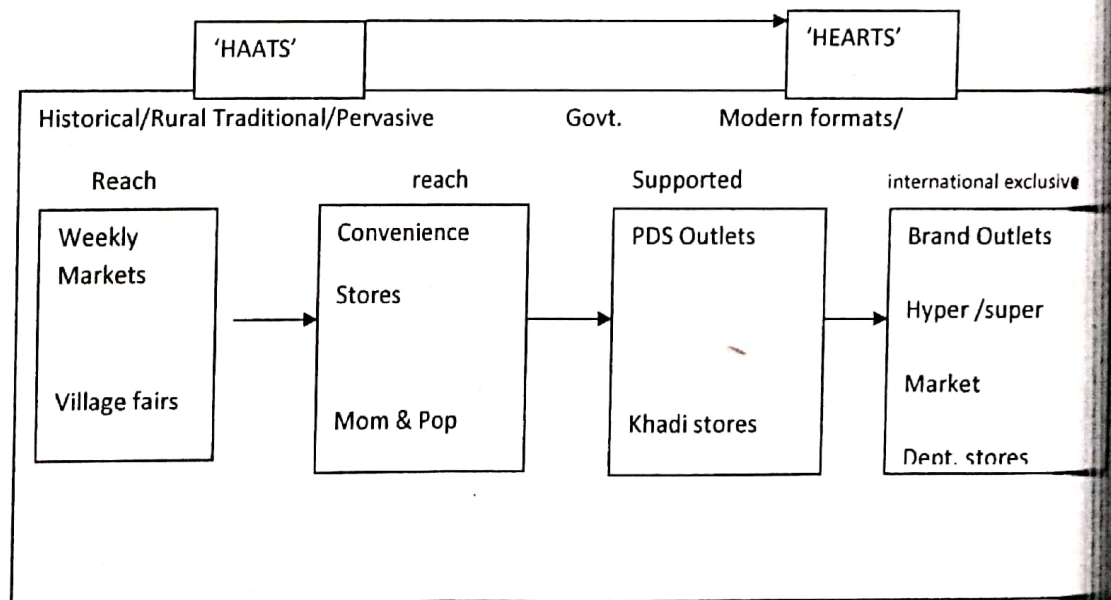
This is the fourth biggest category and is catching up from 5% in 2003-04 to 7% in 2006-07. There are innumerable outlets to sell products at international standard and provide designing of office premises.

e) Jewellery, Watches etc

It is a key emerging category and constituted to about 6% of Indian retailing in 2006-07 rising from 2003-04.

Evolution of Indian Retailing:

Organised retailing is playing an important role in the evolution of retail market. Chart- I shows a historical brief of Indian Retailing.



Driving forces for Indian Retailing

As the increases in income, consumers gradually develop a predilection and penchant for luxury products, and branded goods. With the retail malls and outlets for branded goods mushrooming up everywhere, and fueled by the new found confidence and attitude of 'shop till you drop', they slowly move from 'kirana shopping' to 'mall shopping', looking for quality, that was previously a non-issue. The rapid blitz of leading global brands and other domestic giants in the organized retail sector offering goods and services that were earlier unavailable and the increasing awareness of the latest trends be it fashion, music or entertainment, the Indian consumer has gone global. There are various factors paving the way to revolutionizing food retailing in India:

- a) **Demographic Dynamics:** Approximately 60% of Indian population below 30 years of age.
- b) **Double Incomes:** Increasing instances of Double Incomes in most families coupled with the rise in spending power.
- c) **Plastic Revolution:** Increasing use of credit cards for categories relating to Apparel, Consumer Durable Goods, Food and Grocery etc.
- d) **Urbanization:** Increased urbanization has led to higher customer density areas thus enabling retailers to use lesser number of stores to target the same number of customers. Aggregation of demand that occurs due to urbanization helps a retailer in reaping the economies of scale.
- e) **Improved transportation:** With increased automobile penetration and an overall improvement in the transportation infrastructure, covering distances has become easier than before. Now a customer can travel miles to reach a particular shop, if he or she sees value in shopping from a particular location.

In India, food and groceries form the biggest category in the retail pie accounting for close to 75%. However, this category has the lowest organized retail penetration, which is indicative of the greater opportunity available.

Challenges faced by the organized retail sector in India

a) Supply chain management

The organized sector is facing a major issue related to supply chain management (SCM). A healthy supply chain ensures smooth flow of goods from the point of origin to the consumption point. It also helps in improving operational efficiency and reducing cost. All these benefits are missing in India because of the non-existence of quality supply chain. Under SCM, inventory management is the first challenge that the retailers face at the store level as well as the warehouse level. Inventory level is tough to decide which results in losses. Shortfall of inventory leads to loss in revenues as organization is losing the opportunity to sell the product. On the other hand, excess inventory often leads to increase in inventory costs, and then to lower profits. To overcome these challenges stock level should be accurately identified. Identification of these levels requires extensive analysis of past demand trend of products and future market drivers. It will help in demand forecasting and giving a clear picture of the required stock levels. It enabled tools and services can also be implemented to ensure integration of different departments and achieve operational efficiency. The magnitude of these problems is very high in the case of fresh produce.

b) Lack of logistics infrastructure

Lack of logistics infrastructure in India is another challenge for the retailers. Cold storage chains and quality transportation are missing which leads to high cost and wastage. The availability of a cold chain network and the presence of distribution hubs and networks is a much bigger challenge in small towns and rural areas than in larger metros. On the other hand setting up this infrastructure requires a lot of money. So, the option available can be 'Third Party Logistics'. Through this approach logistics part can be outsourced to a third party, which will take care of all activities related to logistics. It will reduce the cost and will help to attain operational efficiency. Though this concept is currently at a nascent stage, in the coming years it can solve major problems.

c) Long chain of mediator

Next challenge is SCM is of procurement of goods. This problem in turn consists of a long chain of mediator between retailer and producer is another issue in SCM. It is time, cost, and wastage that reduce margin for retailers. On the other hand to be cost effective, retail stores should be cost effective and provide fresh products. Big stores provide to achieve economies of scale, but challenge arrives when adequate supply is not made.

d) Lack of trained and skilled manpower

Lack of trained and skilled manpower for the sector is another challenge. It is vital to have skilled manpower to operate and manage the operations. In India, retail is a comparatively manpower is not properly equipped with the skills required for the sector. Problem at the retail sector exhibits a high attrition rate as compared to the other sectors. Reasons identified for this are long shifts, lack of hygiene and infrastructure and opportunities.

f) Retail shrinkage

Retail shrinkage is the next major challenge. Retail shrinkage refers to the unaccounted goods and wastage of goods due to spoilage.

Though the above challenges are slowing down the emergence of a well developed organized retail in India, the situation is fast changing. With consumers looking at convenience with multiple services under one roof and expectations evolving over time, consumer demand is truly a driving force helping in the growth of organized retail. The retailers who are able to provide high quality products at the most competitive prices will be the winners in this game.

Growth of retailing:

Indian retailing industry has seen phenomenal growth since 2001, the organized retail has emerged from the shadows of unorganized retailing and is contributing significantly to the Indian retail sector. RNCOS' "India retail sector analysis (2006-2007)" report helps clients understand the opportunities and factors critical to the success retail industry in India.

- From 2006 to 2007 the organized sector has grown at a CAGR of around 49.53% per annum.
- Cultural and regional difference in India is the biggest challenges in front of retailing. It deters the retailers in India from adopting a single retail format.
- Hypermarket is emerging as the most favorable format for the time being in India.
- The arrival of multinationals will further push the growth of hypermarket format, as they find a way to compete with unorganized retailing in India.

Retailing Scenario:

The retail scenario in India is unique. Much of it is in the unorganized sector, with over 12 million outlets of various sizes and formats. Almost 96% of these retail outlets are less than 500sq. ft. per-capita retail space in India being 2 sq. ft. compared to the US figure of 16 sq. ft. India's retailing space is thus the lowest in the world. With more than 9 outlets per 1,000 people, India has the largest number in the world. Most of them are independent and contribute as much as 96% of the total retail sales. Because of the increasing number of nuclear families, working women, greater work hours, increased commuting time, convenience has become a priority for Indian consumers. They want everything under one roof for easy access and multiplicity of choice. This offers an excellent opportunity for organized retailers in the country who account for just 2% (and modern stores 0.5%) of the US \$180 billion worth of goods that are retailed in India every year. The growth and development of organized retailing in India is driven by two main factors-lower prices and benefits the consumer. According to experts, economies of scale drive down the cost of the supply chain, enabling retailers to offer more benefits offered to the customer.

Trends in retailing:

The single most important evolution that took place along with the retailing revolution was the rise and fall of the dotcom companies. A sudden concept of non-store shopping emerged, which threatened to take away the potential of the store. More importantly, the very nature of the customer segment being addressed was almost the same. The computer-savvy individual was also a sub-segment of the store frequenting traffic. Internationally, the concept of net shopping is yet to be proven. And the poor financial performance of most of the companies offering virtual shopping has resulted in store based retailing regaining the upper hand. Other forms of non-store shopping including various formats such as catalogue/mail order shopping, direct selling, and so on are growing rapidly. However, the size of the direct market industry is too limited to deter the retailers. For all the convenience that it offers, electronic retailing does not suit products where look and see attributes are of importance, as in apparel, or where the value is very high, such as jewellery, or where the performance has to be tested, as of consumer durables. The most critical issue in electronic retailing, especially in a country such as ours, relates to payments and the various security issues involved.

Recent trends:

- Retailing in India is witnessing a huge revamping exercise.
- India is rated the fifth most attractive emerging retail market: a potential goldmine.
- Estimated to be US\$ 200 billion of which organized retailing (i.e. modern trade) make up percent or US\$ 6.4 billion.
- As per a report by KPMS the annual growth of department store is estimated at 24% and
- Ranker second in a Global retail Development index of 30 Development countries drawn up by AT Kearney.

Conclusion

The retail sector in India grows from small start to big boost with both in single and multi brand business covering all the requirements of the human community. This trend provides goods to large population, job opportunities to a huge junk of people and quality products. It is expected that it serves the society in large quantum and benefit the people and the economy addressing the issues that prevail in the society.

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