

Title: Trends of Retail Sector & Growth Opportunity in India

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ABSTRACT

The retailing industry in India estimated at US\$ 300 Billion (2009-10) is expected to grow at 10% p.a. in for next decade. The size of organized retailing market stands at 5% of the total retailing market which is projected to reach more than 20% at the end of this year. The rising economic growth rate of 8-9 percent and an increase in the average salaries by about 15 % has increased the rate of consumption.

Moving forward, organized retailing is projected to grow at the rate of 25-30% p.a. and is estimated to reach over an astounding US\$ 410 Billion by end of 2011. Retail sector is one of the largest sectors to generate employment (more than 8%) in India. Contribution of more than 12% to GDP in 2009, which is likely to reach 22% till ends of 2010. Internationally India's retail sector ranks fifth, growth wise. It is one of the most attractive sectors for investment and in fact is one of the reasons for India to recover from recession so quickly. At a time when the entire world was bit by the recession bug India still put up a decent performance by maintaining a GDP of 7-8 % and the Indian retail industry too has proven to have a powerful grip on the Indian economy.

As the competition is getting tougher and everyone wants a piece of the BIG profit pie, new companies are joining the Indian retail brigade, and hence existing players have also

looked into their expansion policies quite seriously and are looking at innovative plans of branding and marketing and also opening a variety of stores at all kinds of places, be it urban or rural .In this scenario of feverish activity, this paper aims to map the global scene to the Indian

retail Industry. It looks at the factors that have been fuelling this boom so far and what will drive the growth of the industry in the future. Urban India represents only a fraction of the opportunity that the retail sector can hope to exploit. Significant portion of future growth has to come from the rural market. This paper takes a look at the modern retailing formats being experimented with, both in the cities and the countryside and highlights how they are different from one another.

To fully harness the potential benefits that a huge leap in retail can offer to all its stakeholders in India, the roadblocks in its way have to be removed. This paper analyses the issues that currently impede the realization of the maximum progress possible. It also tries to come up with recommendations that, if implemented, can provide a fillip to the current growth rate of the industry and truly make the Indian Retail Revolution a success story that the world will have to sit up and take notice of.

Key Words: - Retail Industry, GDP, Recession, Economic growth, Consumption, Indian Economy

1. Introduction

Retailing is the final step in the distribution of merchandise - the last link in the Supply Chain - connecting the bulk producers of commodities to the final consumers. It covers diverse products such as food, apparels, consumer goods, financial services and leisure.

1.1 Retail Value Proposition

The value proposition that retail offers to a consumer is easy availability of the desired product in the desired size at the desired time.

1.2 Retailing in India

- Total Consumer Spend in the Year 09-10 – USD \$ 300 billion growing over 10% annually.
 - More than 100 malls spanning a space of over 30 million sq feet in 2009-
 - 10. Organized Retail - Only 5% but growing at 20%
 - Indian retail to cross USD \$ 410 billion mark by 2011
 - INR 200 billion investment in the pipeline
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- Top 6 cities account for 66% of total organized retailing.
 - More than 12% contribution in GDP and generating employment of more than 8%.

1.3 Trends Affecting Indian Retail Industry

•Changing age profile & Disintegration of joint family

India is believed to have an average age of 24 years for its population as against 36 years for the USA and 30 years for China. A younger population tends to have higher aspirations and spends more as it enters the earning phase. Also, nuclearisation of families has led to enhanced demand.

•Growing disposable income

More Indian households are getting added to the consuming class with the growth in income levels. Also, with declining interest rates, the aversion of domestic consumers to taking loans is also fast disappearing.

•Globalization

Growing media penetration is leading to a convergence of aspirations of various classes of consumers, bridging the rural-urban divide. The modern consumer cannot be satisfied by any product or service that is lesser in quality than the best offered in any other place on the globe.

Till 1980s, India knew only kirana stores. Things started to change slowly after that, with companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim opening their company owned outlets. Later on, Titan, maker of premium watches, successfully created an organized retailing concept in India by establishing a series of elegant showrooms.

In recent years in line with the global retail scenario, India has seen different retail formats being experimented with.

2. Retail Formats

Broadly, the organized retail sector can be divided into 2 segments.

- In-store Retailers: Operate through fixed point of sale outlets located and designed to attract a high volume of walk-in customers. Also referred to as brick-and mortar format.
- Non-store Retailers: Reach out to the customers at their homes or offices through direct selling, tele marketing and e-commerce.

Major formats of In-store retailers have been listed in Table below: -

Format	Description	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 (Multi-Brand)	Focus on a specific consumer need, carry most of the brands available.	Greater choice to the consumer, comparison between brands possible.
Department Stores	Large stores having a wide variety of products, organized into different	One stop shop catering to varied consumer needs,

	departments, such as clothing, house wares, toys, etc.	service as differentiator.
Supermarkets	Extremely large self-services 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 the economies of scale.	Low prices.
Hyper-mart	Larger than a Supermarket, sometimes with a warehouse appearance, generally located in quieter parts of city.	Low prices, vast choice available including services as cafeterias.
Convenience Stores	Small self-service formats located in crowded urban areas.	Convenient location and extended operating hours.
Shopping Malls	An enclosure having different formats of in-store retailers all under one roof.	Variety of shops available close to each other.

Of the Top-200 Global Retailers, 21% of retailers fall in the specialty stores category, followed by 18% in supermarket, 12% in department and 9% each in hypermarket and discount stores.

2.1 Retail Formats in India

Indian retail formats can be classified into two distinct categories: traditional and modern.

Traditional Formats include: - Kiranas:

Traditional Mom and Pop Stores

- Kiosks
- Street Markets
- Exclusive / Multiple Brand Outlets.

Modern Formats include: -

- Supermarkets such as Hyper City.
- Hypermarkets such as Big Bazaar, Giant, Shoptite, Star
- Department Stores such as Shoppers Stop, Lifestyle, Pantaloons, Pyramids, Trent:-
- Specialty Chains such as Ikea
- Company Owned / Operated such as Bata, Sony

Forecourt Retailing

This concept recently shot into limelight with oil companies trying to milk this revenue stream for more moolah. Apart from dispensing fuel, the stores offer value added services to busy consumers. This strategy is currently aggressively being pursued by IOC, BPCL, HPCL and Reliance.

Trade Parks

A new emerging concept in retailing is the establishment of business complexes particularly for international trade. Some of the examples are India Exposition Mart set up by Handicraft Export Promotion Council in Greater Noida, International Home Deco Park (IHDP) set up by a group of private investors in Noida and World Trade Park coming up in Jaipur. IHDP will provide International buyers ready access to 60 world class exporters from India in the Home Furnishings category. This would be beneficial to buyers as they would not have to go to remote towns (where the infrastructure is not good) to see the designs and samples of exporters. Exporters apart from getting increased visibility will also get other facilities such as design library, design studio, forwarding services and so on. The parks are built to promote trade and are open to international buyers and buying houses only.

2.2 Retail Format Model for India

The key to a winning retail format is to follow a model that suits the Indian consumer behaviour. One big undisputable fact is that almost all retail players (especially in food) have been region-specific. So whether it is Food World, Nilgiris, Margin Free Market, Giant, Varkey's and Subhiksha in the South, Sabka Bazaar only in and around Delhi, Haiko in Mumbai or Ahmedabad-based Adani, they have clearly battled with scalability.

Issues to be tackled

Scaling has multiple implications. Ideally, it is an attempt to increase market share/ revenues or growth. But the question is: How does it affect operations? Does it mean reduction in assortment, shift to standardization and reduced customizations? Where to scale, up, down or out? When to scale? Should a Food World replicate its South-based format in a Delhi? And what happens when it wants to go to other 10 million+ towns? And then lower down the pop strata? (More real estate space is available in smaller towns, but do the footfalls justify the bigger box format?)

Need for multiple formats

Clearly, a retailer needs different formats for different town classes - but then what happens to economies of scale via standardization? A good way out is the way the RPG group is treating its Music World stores - flagship vs. smaller vs. the express outlets located in, say, a Food World. Similarly, the way ABC has defined Cafe Coffee Day outlets - flagship vs. takeaway.

Most of the global powerhouses in the retailing sector such as Wal-Mart, Carrefour, and Tesco etc have adopted multi-format and multi-product strategies in order to customize their product offering for distinct target segments (refer table below).

Retailer	Formats	Product Categories
Wal-Mart	Discount, Warehouse Clubs, Stores, Convenience Stores, Hypermarkets, Neighborhood Stores	Food & Grocery, Furniture & Furnishings, Auto Services, General Merchandise, Electrical, Financial Services, Appliances, etc.
Tesco	Supermarkets, Neighborhood Stores, Convenience Stores, Internet, Catalogue, Hypermarkets	Food & Grocery, General Merchandise, Clothing, Home Products, Fuel, Automobile, etc.
Carrefour	Hypermarkets, Convenience Stores, Supermarkets	Food & Grocery, Clothing, General Merchandise, etc.

In line with the global evolution, Indian Retailing has also witnessed a series of experiments across the country with new format being tested out; old ones tweaked around or just discarded. Some of these are listed in the table below: -

Retailer	Old Format	New Format Experimented With
Shoppers' Stop	Department Store	Quasi-mall
Ebony	Department Store	Quasi-mall, smaller outlets, adding food retail
Crossword	Large Bookstore	Corner shops
Pyramid	Department Store	Quasi-mall, food retail
Pantaloon	Own Brand Store	Hypermarket
Subhiksha	Supermarket	Considering moving to self service
Vitan	Supermarket	Suburban discount store
Foodworld	Food Supermarket	Hypermarket, Food world express
Globus	Department Store	Small fashion stores

The above-mentioned modern formats of retailing have not as yet served the rural consumer. However, off late, some private players like ITC, HLL and DSCL are trying out innovative methods of retailing in rural India.

3 Regulations in Retail Industry

The policy environment is currently seen to be unfavorable to organized retailing. Some of the impediments to growth of retail include the following: -

3.1 Restrictions on FDI

Recent indications that the government is considering foreign direct investment in retail trade have sparked off a debate on the advisability and consequence of this policy. At present, foreign direct investment (FDI) in pure retailing is not permitted under Indian law.

Some of the areas in retailing that will be affected by FDI are as follows: -

- Creating Additional Jobs

- Diminution of Kirana Shops and Retail Stores
- Access to Larger Financial Resources
- Benefit to Consumers
- Supplier Quality Enhancements
- Enhanced Supply Chain
- Increased Exports
- WTOs Cross Retaliation

Verdict on FDI

Market is an important asset. It needs to be protected the way other assets are protected. However, it is clear that FDI in retail trade will lead to incremental economic benefits and not substitute on-going activities. Any strategy in the direction of FDI should ensure that domestic players are not unduly displaced and sufficient opportunities are available for the growth of domestic players. Therefore, the strategy should be controlled release of restrictions on FDI. Percentage of FDI allowed should be increased in small amounts and for specific commodities at every step. Constructive suggestions and inputs from all stakeholders should be taken in shaping the policy.

3.2 Land and property Laws

There is a shortage of good quality retail space, and rents are high for what is available. Compounding these shortages are the following problems: -

- Only Indians can own property in India, which complimenting the restrictions placed on FDI, restrict the entry of foreign players.
- Stamp duties on property deals are significant. The lease alone can cost up to 6-10 per cent of sales while it's just 3-5 per cent globally.
- The initial urban planning of cities was done with smaller plots in mind which along with rigid building and zoning laws make it difficult for procurement of retail space.
- The urban land ceiling act and rent control acts have distorted property markets in cities, leading to exceptionally high property prices.

3.3 Labor Laws

The labor laws instituted to protect store workers are not flexible enough to support the modern formats of retailing. These rigidities in the law constrain the operations of modern retail outlets. Working hours are restricted, with shops required to close one day of the week and the hiring of part-time employees is difficult.

3.4 Taxes

Effective corporate tax rate is 36.59% for a local company and 41.82% for a foreign company. Even essential basic foodstuffs are taxed.

The varying sales tax rate across states makes supply chain management an even more difficult task for retailers. However, with the introduction of Value Added Tax (VAT) across all states, some of the sales tax anomalies in the supply chain could get correct over a period of time.

4. Indian Rural Market

4.1 Opportunity

The importance of the rural market is underlined by the fact that the rural market accounts for close to 70 per cent of toilet-soap users, 38 per cent of all two-wheeler, half of all TV sets, fans, pressure cookers, bicycles, tea, salt and toothpowder sold. What is more, the rural market for FMCG products is growing much faster than the urban counterpart.

4.2 Problems in Rural Marketing

Although the rural market does offer a vast untapped potential, it should also be recognized that it is not that easy to operate in rural market because of several obstacles. The major problems faced are: -

- Underdeveloped people markets
- Lack of proper communication facilities
- Poor media reach
- Many languages and dialects
- Dispersed market
- Low per capita income
- Low levels of literacy
- Prevalence of spurious brands and seasonal demand

4.3 Understanding the Market

Rural marketing is a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to tackle the problems. The alternative 4As Model when applied to the rural retailing scenario comes up with the following challenges: -

Availability

India's 627,000 villages are spread over 3.2 million sq km. However, given the poor state of roads, it is an even greater challenge to regularly reach products to the far-flung villages. To

service remote villages, stockiest use auto-rickshaws, bullock-carts and even boats in the backwaters of Kerala.

Affordability

With low disposable incomes, products need to be affordable to the rural consumer, most of who are on daily wages. Some companies have addressed the affordability problem by introducing small unit packs.

Acceptability

There is a need to offer products that suit the rural market. Because of the lack of electricity and refrigerators in the rural areas, Coca-Cola provides low-cost ice-boxes - a tin box for new outlets and thermocol box for seasonal outlets.

Awareness

Mass media is able to reach only to 57% of the rural population. Creating awareness then, means utilizing targeted, unconventional media including ambient media. For generating awareness, events like fairs and festivals, Haats, etc., are used as occasions for brand communication.

4.4 Developments in Rural Retailing

ITC's Chaupal Sagar

Chaupal Sagar is one of the first organized retail forays into the hinterland. It has been initiated as rural shopping-cum-information centers in Madhya Pradesh. The first rural mall has come up 40 kilometers from Bhopal towards Sehore. Chaupal Sagar offers almost everything - from toothpastes to televisions, hair oils to motorcycles, mixer-grinders to water pumps, shirts to fertilizers. Most of the brands it sells are national such as Marico, LG, Philips, torches from Eveready, shirts from ITC's apparel business, bikes from TVS, and tractors from Eicher.

Some other facilities on offer include: -

- Banking and automated teller machines
- Insurance products for farmers
- Entertainment facilities
- Restaurants
- Fuel pump in tie-up with BPCL
- Cafeteria
- Parking lot for 160 tractors
- Primary healthcare facility
- Information centers
- Training facility on modern farm techniques
- Godowns for storing the wheat and soybean and also for stocking products retailed at the mall

DSCL's Haryali Bazaars

Having successfully pioneered a new concept of Haryali Kissan Bazaars in 2002 in Hardoi, agri-inputs focused DCM Sriram Consolidated Ltd. (DSCL) opened eight more (Ladwa in Haryana, Ferozepur in Punjab, Kota in Rajasthan and four locations in UP).

The store complex is spread over 2-3 acres and caters to all the farmers requirements (both DCM Sriram products & other sources): farm inputs ((fertilizers, seeds, pesticides, animal feed), farm implements, spare parts, irrigation equipment, spraying equipment. Twenty such stores, each catering to 100 villages, are planned by the end of 2005.

HLL's Project Shakti

Project Shakti is Hindustan Lever Ltd's (HLL) rural self-help group initiative to push the penetration of its products to reach areas of low access and low market potential.

To get started the Shakti woman borrows from her "Self Help Group" and the company itself chooses only one person. A Shakti entrepreneur receives stocks at her doorstep from the HLL rural distributor and sells direct to consumers as well as to other retailers in the village. Each Shakti entrepreneur services 6-10 villages in the population strata of 1,000 - 2,000 people.

The women avail of micro-credit through banks. Some of the established Shakti dealers are now selling Rs. 10,000 - Rs. 15,000 worth of products a month and making a gross profit of Rs. 700 - Rs. 1,000 a month. The company is creating demand for its products by having its Shakti dealers educating consumers on aspects like health and hygiene.

Others

Marico launched a major initiative into rural markets by appointing 2,400 sub-stockiest in the last two years. Recently, Dabur recently finished a pilot project for its super-stockiest in Patna and has now rolled it out in Bihar, Madhya Pradesh and Rajasthan. Reckitt has also adopted the super-stockiest system in Tamil Nadu and plans to set up such a system all over the country in the next year, with the target of covering one million outlets in the next three years.

4.5 The Rural Remedy

The business model for rural retail can be successful only when integration between the profit and social motive is apparent. The social angle needs to be pronounced for it to be acceptable. The model should empower the rural consumer and at the same time take advantage of this empowerment through creation of demand for its own products and that of its partners.

The roadblocks in the way of retail revolution hamper the growth of the industry both in urban and rural areas. These bottlenecks if not removed have the potential to retard the rapid progress that this sector has been witnessing.

5. The Revolution Ahead

The last few years have seen rapid transformation in many areas like: -

- Scalable and profitable retail models are well established for most of the categories.
- Indian consumers are rapidly evolving and accepting modern formats overwhelmingly
- Retail space is no more a constraint for growth
- India is on the radar of global retailers
- Suppliers / brands are willing to partner with retailers
- Notwithstanding some stumbling blocks, no one can mistake the immense potential of the boom in the domestic retail sector.

Given the size and the purchasing power of the Indian consumer, the road ahead can only get smoother and it is only a matter of time before the domestic retail industry is on par with its western counterparts.

Supply Chain Complexity in Rural:

The challenges are huge, whether it is setting up the supply chain or inventory management. In the first phase of the retail revolution, the focus of entrepreneurs has been largely on capturing the consumers' attention and providing them with a new shopping experience.

The agriculture related supply chain segments suffer from maximum inefficiency. Cumulative wastage in the supply chain is estimated to be about \$ 11 Billion, or 9.8% of agriculture component of GDP. Wal-Mart is renowned for positively impacting local businesses. It typically sources over 95% of local products whenever stores are opened. Due to its ability to purchase huge volumes and efficient mechanism that monitor merchandise, Wal-Mart receives the best deals from suppliers, leading to the cheapest prices for non-food items. From the fresh and processed food perspective, Wal-Mart will provide training assistance to Indian farmers, which will result in better realization and also lower prices to consumers. (Currently, about 35% of produce is reportedly wasted in the absence of cold chain system and infrastructure).

6. Conclusion

At present, India is in amazing situation. The economy is growing very well and organized retail is booming with bigger players, both global and home grown, entering the market. The challenges are huge too, whether it is setting up the supply chain or inventory management. In the first phase

of the retail revolution, the focus of entrepreneurs has been largely on capturing the consumers' attention and providing them with a new shopping experience.

Untapped Rural Market is a huge opportunity to tap. Higher Cost and complexity of merchandising, supply chain, stock keeping and inventory management. Cut throat competition among key retail players in urban market is a challenge.

Sky reaching Cost of commercial space and high operating cost in urban market has made retail less profitable. At the same time it's focused rural as emerging market for growth. Understanding middle / economic class Indian consumer and buying behavior. Allowing 51 percent retail FDI in single brand retailing is a welcome move in this direction. New FDI policy has opened the doors for foreign fund to come in retail and real estate sectors, similar kinds of government initiatives are required to amend laws and improve curbs so that the mega players can't openly decimate the unorganized retail sector.

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