

International Journal of Advance Research in Computer Science and Management Studies

Research Article / Survey Paper / Case Study

Available online at: www.ijarcsms.com

Organized Retailing in India: Challenges and Opportunities

K. Santosh Kumar

Department of Management Studies
Vardhaman College of Engineering (Autonomous)
Shamshabad, Hyderabad, Telangana - India

Abstract: *The retail panorama in India is changing hastily and is being scrutinized by large scale investments by foreign and domestic players. Market liberalization and changing consumer behavior have sown the seeds of a retail transformation. Indian retailing is growing fast and imparting the consumer preferences across the country today retailing is largest contributing sector to country's GDP i.e. 14 to 22%. Modern retailing is capable of generating employment opportunities for 2.5 million people by 2015 in various retail operations and over 10 million additional workforces in retail support activities. More than 95% of the Indian retail sector falls in the unorganized sector category. Organized retail is expected to grow from 5%-6% to 14%-18% of the total retail market by 2015. It offers huge potential for growth in coming years. India is becoming most favoured retail destination in the world.*

Keywords: *Market Liberalization, Modern Retailing Techniques, Consumerism, Challenges & Opportunities.*

I. INTRODUCTION

The reasons for the emergence of Retail in India are increasing double income families, disposable income, and impact of developed nations. With the help of modern management techniques it will become the specialist Retailers in future. They know that the relationship between the retailer & customer is very close than other chains of distribution.

India is a nation of shopkeepers. We can see more than 16 million retail outlets in India, and India has highest density of retail outlets in the world. Retail Industry in India is at present estimated to be more than US \$ 3,893,425 Cr (US \$ 648.90 billion). On that part of organized retailing is estimated CAGR (Compound Annual Growth Rate) 13% i.e. \$ 950 billion. In future by the year 2018 the vision of Industry is to attain the goal which is estimated US \$ 23 billion in organized retail.

II. OBJECTIVES

This research Paper is prepared for following objectives:

- » To Check Growth & Development of Indian Retail Industry
- » To Check Impact of Organized Retailing in India.
- » To Check Challenges of Modern retailing In India.
- » Future of Modern Retailing in India.
- » At the end paper will cover each objective comfortably followed by conclusion and recommendation.

III. THE EVOLUTION OF RETAIL IN INDIA

While barter is considered to be the oldest form of retail trade, since independence, Retail in India has evolved to support the unique needs to our country given its size and complexity. Haats, Mandis and Melas have always been a part of the Indian landscape. They will continue to be present in most parts of the country and form an essential part of life and trade in various areas.

The PDS or the Public Distribution System would easily as the single largest retail chain existing in the country. The evolution of the public distribution of grains in India has its origin in the 'rationing' system introduced by the British during the World War II. The System was started in 1939 in Bombay and subsequently extended to other cities and towns. By the year 1946, as many as 771 cities / towns were covered. The system was abolished post war, however, on attaining Independence, India was forced to reintroduce it in 1950 in the face of renewed inflationary pressures in the economy.

Tracing the evolution of Indian retail would be incomplete without mention of the Canteen Stores Department and the Post Offices in India.

The Khadi & Village Industries (KVIC) was also set up post independence. Today, there are more than 7,050 KVIC stores across the country. The Co-operative movement was again championed by the government which set up Kendriya Bhandras in 1963. In Maharashtra, Bombay Bazaar, which stores under the label Sahakari Bhandar, and Apna Bazaars run a large chain of Co-operative stores.

In the past decade, the Indian marketplace has transformed dramatically. However from the 1950's to the 80's investments in various industries was a limit due to the low purchasing power in the hands of the consumer and the Governments policies favoring the small- scale sector? It was at this time that many steps towards liberalization were taken in the period of 1985-90. It was at this time many restrictions on private companies were lifted, and in the 1990's the Indian economy slowly progressed from state led to becoming 'market friendly'.

While independent retail stores chain like Akbarally's Vivek's and Nalli's have existed in India for a long time, the first attempts at organized retailing were noticed in the textiles sector. One of the pioneers in this field was Raymond's which set up stores to retail fabric. It also developed a dealer network to retail its fabric. These Dealers sold a mix of fabrics of various textile companies. The Raymond's distribution network today of 30,000 retailers and over 637 showrooms across the country.

Other textile manufacturers who also set up their own retail chains were reliance – which set up Vimal Showrooms – and Garden Silk Mills with Garden Vareli. It was but natural that with the growth of textile retail, readymade branded apparel could not be far behind and the next wave of organized retail in India saw the likes of Madura Garments, Arvind Mills, etc, set up showrooms for branded men's wear. With the success of the branded men's wear store, the new age departmental store arrived in India in the early nineties.

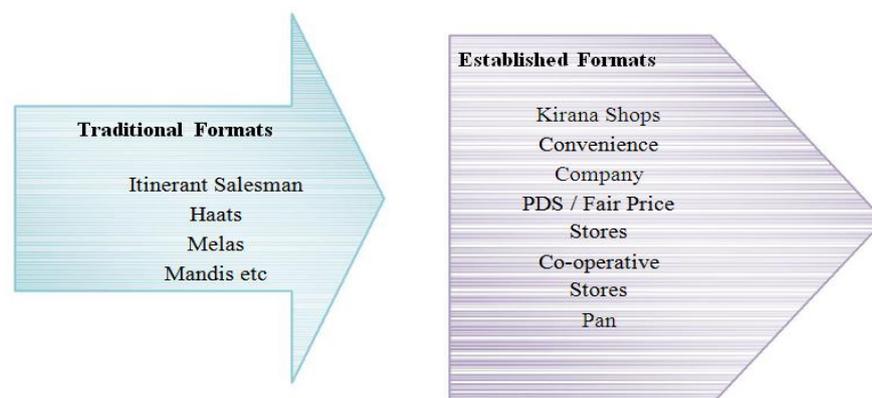


Fig. 1: Evolution of Retail in India

This was in a sense, the beginning of new era of retail in India. The fact that post liberalization, the economy had opened up and a new large middle class with spending power had emerged, helped shape this sector. The vast middle class market demanded value for money products, a better shopping ambience, more convenience and one stop shopping. This has fuelled the growth of departmental stores, supermarkets and other specialty stores. The concept of retail as entertainment came to India

with the advent of malls. The development of malls is now visible not only in the major metros but also in the other parts of the country.

IV. LITERATURE REVIEW

Retail marketing has become exhortation in the modern business scenario. It being an important component of the service sector, has played a vital role in restructuring the economies both in developed as well as the developing countries. The present worth of the global retail Industry being 22 Tn. Dollars. It is a famous axiom "Retailers are Billionaires and Billionaires are Retailers". The global practices in the world such as availability of large variety of retail Formats such as Hypermarkets, supermarkets, Departmental stores and Mega Malls were initially considered as the Western Concepts but their relevance in the developing countries presently in Asia, Africa and Latin America cannot be undermined. The innovative business practices and trends evolving on global basis such as variety of Retail Formats, Increased Customer focus, FDI/Franchising arrangements, along with Multiple sourcing, Visual Merchandising, Automated retailing through Vending and E-Tailing and the presence of Private brands has resulted in not only enriching the retail business giants but also provided the consumers with the International shopping experiences and Convenience. The relevance of these upcoming trends for the transitional and developing economies is immense particularly in the perspective of different types of political set-ups, Social preferences and objectives, economic conditions, prevailing legal environment and input technological levels available with them. It also serves them as a guide to develop and implement their own indigenous retail strategies. The difference in the mega and micro environments of developing nations from the developed ones is to be carefully analyzed before applying the international business practices and a proper SWOT analysis has become the need of the hour.

The Retail Market in India has undergone significant changes in the last 10 years. The organized retail market is expected to grow 25-30 % annually and would triple in size from the current US \$ 330 billion to US \$ 427 billion by 2010 & US \$ 637 by 2015. Retail is contributing 10% to our GDP and is the largest source of employment after Agriculture. The Indian market has seen vast changes in political, Economic and Social environment which has a great impact on Consumption. The retail Market has been divided into traditional and the organized sector with the entry of both Indian and the foreign corporates.

The Indian market has witnessed vast improvements in political, Social & economic environment which indirectly has also great impact on the Consumption pattern. Now with the entry of both the India and the foreign Corporate in the Indian Retail scenario the market has got division into the Traditional and the organized sector. The Indian retail scenario is facing the same issues and challenges as the Mom and Pop stores in other developing nations with the emergence of big box retailers. The various issues to be faced are such what would be the future pattern of consumption with what type of formats preference by the consumer and whether it will lead to effect on the Unorganized traditional retailers. This research is developed to overcome this gap. Organised retail segment has been growing at a blistering pace, exceeding all previous estimates. The fastest growing segments have been the wholesale cash and carry stores (150 per cent) followed by supermarkets (100 per cent) and hypermarkets (75-80 per cent). Further, it estimates the organised segment to account for 25 per cent of the total sales by 2015. Driven by changing lifestyles, strong income growth and favourable demographic patterns, Indian retail is expanding at a rapid pace. Mall space, from a meagre one million square feet in 2002, and to touch an estimated 107 million square feet by end-2015, says Jones Lang LaSalle's third annual Retailer Sentiment Survey-Asia.

The frenetic pace of development in retail sector has led to estimates by Goldman Sachs that the Indian economic growth could actually exceed that of china by 2015. It is a common belief that this country has immense potential to deliver the faster growth over next 50 years. (Source: India's Economic growth may beat China by 2015: Goldman Sachs, Asia Pulse, Feb7, 2005) In the year 2004, the ratio of organized-Unorganized retail was 3:97 which is expected to be 9:91 by 2015. It is not only the global players such as Walmart, Tesco, Carrefour trying to capture the retail pie in Indian market but also the Indian domestic corporate behemoths like Reliance, AV Birla Group, Bharti group etc. doing the same at a galloping pace.

The consumer decision making process is a complex phenomenon. The purchase of goods or services includes a number of factors that could affect each decision. There are still various issues to be addressed such as the Customers patterns of Consumption, The customer preference regarding the Types of Retail Format and influence of Shopping Malls on the Consumer Purchase Behavior. Also whether the rise of the Modern Organized Retailing will lead to affect the Traditional unorganized Retailers. Furthermore the Comparative Analysis regarding the acceptability of the mall concept and the impact of Shopping Malls on the general living standard of the society are being considered. There is increased sophistication in Customers shopping pattern which has led to emergence of big retail chains in metros, mini metros and towns now becoming the next target. There is a drastic change in the customer's tastes and preferences leading to radical transformation in their lifestyle and the spending patterns thereby giving rise to new business opportunities. This generic growth, driven by changing lifestyle and strong increment in income is to be supported by the favorable demographic patterns. The development of Mega malls in India is adding a new dimension to this booming retail sector. The groups of visionary corporates working constantly to improve upon urban shopping experience through the Shopping Malls concept is the latest move in the retail sector India is a nation of shopkeepers as well as Shoppers. It is a common practice that retailers and marketers often strive to learn how and why people shop. The decision making regarding purchase of goods and services has become more complex and includes a number of factors which are important for Consumers. They are wooed by Advertising, word of mouth, news articles and direct Mailings providing ample information in this IT Age along with the mixed messages. The addition of a number of variety store, goods stores and shopping Malls with the availability of Multi-component products and Electronic purchasing capabilities have played a crucial role in widening the choice for Consumers and have complicated Decision Making(Halfstrom et.al., 1992)

V. RESEARCH METHODOLOGY

5.1. Research Objectives

- » The following objectives for the research work were formulated.
- » To Check Growth & Development of Indian Retail Industry
- » To check impact of organized retailing in India.
- » To check challenges of modern retailing in India.
- » Future of modern retailing in India.

5.2. Research Design

The research design for the present study was basically descriptive and exploratory in nature. The study started with exploratory research design in order to have a deeper insight of the changing retailing environment. This help the researcher formulate the research hypothesis for the present study. The descriptive research design was used to describe the relationship between various dependent / Independent variables which were explored during exploratory study.

5.3. Limitation of Research

The present study is largely exploratory in nature. Thus not withstanding its richness of data, it lacks control of variables (either through experimental design or through statistical techniques) influencing the research results.

Time is a constant factor, so our expectations are not fully satisfied; there is a scope to improve it

VI. PRESENT SCENARIO OF RETAIL INDUSTRY IN INDIA

India is witnessing changing life styles, increased incomes, the demographic variabilities and vibrant democracy. Indian retailing is expanding and is expected to reach at US\$637 billion by 2015. Modern retail is soon capturing 22% share in total retail by 2015 with the expansion of 12 millions outlets and provision of creating 1.5 millions jobs in 2 to 3 years. The industry is playing vital role in the economic growth of the country. The concept of shopping is moving in and around hypermarkets, supermarkets, specialty stores and in other formats.

Changing life styles are promoting changes in retail environment. Time constraints and traffic congestion, increase in disposable incomes has created a need for new types of retail format. Getting the right product at right time at lowest possible cost is an advantage of consumers in the edge of retail transformation.

VII. ORGANISED/MODERN RETAILING

Indian corporates major like Reliance, ITC, Bharti, Tatas, Rahejas, Piramals and Pantaloons have entered into the segments but more and more players are showing interest in USD350b (APPROX.) Indian Retail Market. Growth of organised retailing is limited to few metros, state capitals, tier I and tier II cities where no. of middle and higher income people is large and choice of high priced products they sought for.

VIII. RURAL RETAIL FORWARD MARKET

Country rural market is offering great opportunities for Modern retailers for opening of stores in villages. 46% of rich and well-off population is living in rural areas and 60% of them are living in 17% of total villages. It creates good scope for investment in rural areas in retailing.

IX. ADVANTAGE MODERN RETAILING

- 1) Employment Generation
- 2) Increasing efficiency in Agriculture
- 3) Enhance shopping experience for consumers
- 4) Creating a positive social Change
- 5) Economies of Scale

Employment Generation: Modern retailing has the potential for generating employment of 2.5 millions people by 2010 in various retail operations and more than 10 millions in indirect retail activities including contract production and processing, supply chain and logistics, retail real estate development and management.

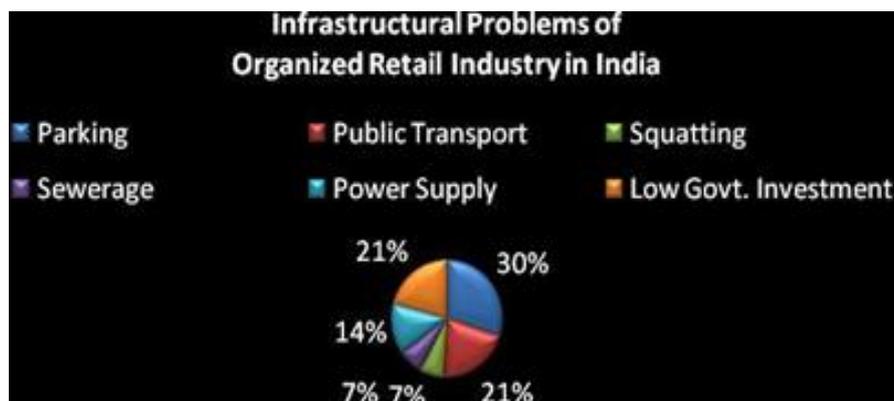
Increasing efficiency in Agriculture : The concept of middleman in food supply chain is matter of yesterday. Farmers are cultivating crops as per the demand of retailers. Customers are getting benefits of reduced pricing while the farmers are receiving higher returns for their produce. Only organized retail provides mass marketing of processed and package foods.

Enhanced shopping experience for consumers: Trends of shopping with entertainment is gaining momentum because of time and traffic congestion. An organised retail offers one stop shopping with many product baskets at single location. These formats add experience of large scale purchase, consumer preference, excellent ambience and choice of merchandising.

Creating Positive Social Change : Retailing leads to improvement in local infrastructure by providing adequate parking facilities, ATM, a safe and secure environment which encourages the setting up of 24 hrs. Convenience stores, a hygienic ambience to the consumer's etc. This is enabling positive social change in the industry.

X. ORGANIZED RETAILING AND ITS CHALLENGES

Challenges	Implication
Fragmented Supply Chain	High wastage and high product cost
Multiple Legislative Laws	Hinder fast expansion and increase overall cost.
Cumbersome Labour Laws	Limits organized retail business of 24*7
Escalating real estate prices	Higher operational costs
Complexity in tax structure	Rate, classification and procedure is different across the country
Shortage of Manpower	Beginning of specialized training centre and specialized course on retail
Cultural Disparity	Understanding customer choice and preferences is different
Industry status	Far away from benefits of Industry status



KEY PLAYER ANALYSIS : (Big Bazaar, Reliance Fresh, Spencer's, More,)

11.1. Big Bazaar

Big Bazaar is flagship of Future Group of Companies, based at Kolkatta. The group is incorporated by Mr. Kishore Biyani. PRIL is the first retail store in hypermarket format. The group is recognized as multi format retailers.

Big Bazaar Model : One stops shopping model, Under one roof you can get vast range of merchandise with over 2, 50,000 SKUs.

Product Mix: Branded and Private label apparel, Personal care products, leather products, Books, Music, Toys, Consumer durables, Home Furnishing, Food and Grocery.

Pricing Strategy: Maximising on Gross margin

Challenged Faced: MRP Laws, Rising Real estate Price, Unavailability of Land.

11.2. Reliance Fresh

Reliance Fresh is the venture of Reliance Industry Limited in foods and vegetables. It is first modern retail enterprise in food sector which has potential of approx \$500billion market. It is one of the best examples of agribusiness industries which boost economic integration in rural areas and villages.

Reliance Fresh Model : Farms to forks model is adopted to operate business. Small and medium size stores vary from 1500 sqft. to 3000 sqft.

Product Mix : Fresh fruit and vegetables, staples, FMCG and Dairy products.

Pricing Strategy : Disintegrates intermediary and reduce cost of fresh produce. Reliance fresh is focusing on value to customer.

Challenged Faced : Political Interface and people movements against the retail giant at various places.

11.3. Spencer's

The group is conglomerate today having 180 showrooms across the country. It is one of the fastest retail groups in India. The outlets cater to almost all price range. Small format models at the time of initial phase in tier I and tier II cities and later on converted into hypermarket model. Focusing on lower middle income group.

Product Mix: House Hold merchandise, groceries, Footwear, toys, home furnishing, mobile phones, watches, toiletries items.

Pricing Strategy: Price suit to every targeted customer.

Challenges: Managing the expansion plans with supervising demands of consumers and keeping economic of scale high.

11.4. More

Aditya Birla Retail Limited (ABRL) is the retail arm of Aditya Birla Group Company. ABRL is the fourth largest supermarket chain in the country after Future Group, Reliance Retail and D-Mart. It operates two different store formats - Supermarket and Hypermarket under the brand more.. It has about 494 supermarkets and 16 hypermarkets around the country

More Model: One stop model targeting tier II and III cities.

Product Mix: Apparel, luggage, home furnishing, cloths, garments.

Pricing Strategy: Big Brand, big discount.

Challenges Faced : It will take time to position the brand in the mind of customer.

XI. CONCLUSION

Retailing provides a crucial link between producers and consumers in modern market economy. Retail in India is most dynamic industry and represents a huge opportunity both for domestic and international retailers.

Modern retailing is not threat to independent Mom and Pop stores as most of the consumers said that they never stopped visiting Kirana stores. They strongly agreed on coexistence of both is requirement of the day. Their frequency of going to kirana stores is reduced but its kind of opportunities for reorienting Mom and Pop stores for attracting more customers. So, organised retailing is beneficial for India because it's not alarming to create conflict with unorganized stores but reshaping unorganized stores into budding/nascent organised stores. Modern retailing has miles to go in India. The growth of modern formats has been much slower in India as compared to other countries and the development of this sector is restricted by the presence of regulatory and structural constraints

XII. RECOMMENDATIONS

13.1 Certain Steps Are Required To Make Indian Retailing World Class Is Mentioned Below

1. There is a need for setting up of Retailers Cooperatives which functions as distribution centres and warehouses. It will help the retailers to buy the products they want directly from original manufacturers in bulk quantity.
2. Mergers of weak retailers and buy out weak retailers by a stronger one are other important steps. This will give new retailers the desired leverages to be world class.

3. Networking of Independent firms believing the use of technology for business excellence and pressurizing suppliers and others channel members to use compatible technology.

13.2 Suggestion for Retail Reforms

1. Accord Industry Status to Retail: Industry status should be given to improve retail development, to facilitate organised financing and to establish insurance norms.

2. Incentives for Investments : Tax holidays norms for cold storage chains, infrastructure and investments in supply chain should be enacted.

3. Comprehensive Legislation : Comprehensive legislation should be drafted and enacted with futuristic approach.

4. Eliminating Arachic Laws : Laws, Essential Commodities Act, APMC Acts, Licensing restriction, differential taxes, stamp duties, should be simplified and put in proper place so that it would not hinder growth of retail sector. This will help in creating "Commodities Futures Markets".

5. Allow Foreign Direct Investment (FDI) in phased manner : Allow foreign direct investment in the company according to financial planning.

6. Rationalise the tax structure : The current multipoint taxation should be rationalised. Government should introduce a uniform taxation system across the country to relax the law that hinder inter state flows of goods.

7. Streamline the process of clearance

8. Encourage PPP model for infrastructural development

9. Amend the existing cumbersome labour laws: The existing labour laws needs to be amended on an urgent basis in order to support the growth the growth of organised retailing and to develop India as a sourcing hub.

10. Announce a national policy for retail: The Government should announce a National Retail Policy that allows the coexistence of both organised and unorganised retail and address issues such as sourcing, contract farming, movement of goods across India and also defines clear cut guidelines for the functioning of retail sector in India.

11. Establishment of National Commission on Retail: The national commission on retail must be established. The function of commission should be :

- a) To set clear target for giant retailers for procurement.
- b) To formulate rules on entry of foreign players and compliance with social safeguards.
- c) To develop cooperative stores for eradicating the problems of limited marketing and promotions.
- d) To facilitate the way of setting up Agricultural Perishable Produce Commission for ensuring the procurement prices for perishable commodities.

12. Reduce impediments to inter state movement of goods

13. Enforce uniform quality standards

14. Setup a regulatory body for the governing the operations of retail sector.

XIII. LIMITATION OF RESEARCH PAPER

It will be plausible to note conditions of this study that limit the extent of legitimate generalizations and thus limit the extent of legitimate generalization of this study. The shortcomings may be stated as follows:

14.1. Lack of in –depth Approach

Notwithstanding its comprehensive coverage, the present study may be criticized because it misses an in –depth analysis of the type the psychologists or anthropologists have often conducted. The study has not been analyzed by using any psychometric test or econometric test. The study is totally based on the practices being followed by the industries and has been viewed from marketing point of view.

14.2. Retailing is a continuous process.

Retail marketing has been described as a race without a finish time. Because definitive answers to questions of retailing are not always available and absolute retailing excellence is more an ideal than a realistic goal, it is best to view e-tail as a series of small steps on a learning curve. This study too small is a step in this direction and should be treated as a small contribution to the academic world.

14.3. Accuracy and dependability of Interpretative material used as plausible Reasons

Most of the interpretative material used as plausible reasons for research findings of the present study consisted of the opinions of executives and general masses from a number of industrial settings of different nature, speculation and haunches of researcher rather than conclusions and inferences drawn from empirical studies. Explicitly, this study must be viewed with circumspection and appropriate regard from human frailties

References

1. CRISIL Research-Retailing Annual Review 2009
2. HSBC Global Research-India Consumer Brands & Retail, October 2007
3. Tata Strategic Management Group-Organised Retailing in India: The next growth frontier, 2006
4. The McKinney Quarterly-Tracking the growth of Indian Middle class, November 2007
5. Idea taken from Research Article titled, “Retailing in India: The Way Ahead” written by Binod Kumar Sinha, Faculty Member in ICFAI Business School Raipur.
6. Various Press Sources, The Economic Times, The Hindu Business Line, The Indian Express, The Hindu, The Business Standard
7. Dutt, D.2004, ‘An outlook for Retailing in India, Vision2005’ (Form a presentation by KSA Technopak at MDI Gurgaon in January and February).
8. Kotler, Philip 2000, Marketing Management, 10th Ed., Prentice Hall of India Pvt Ltd, New Delhi.
9. Knight Frank India Research (Mumbai) 2002, ‘Searching for space’, Praxis Business Line, January.
10. Chandrasekhar, Priya 2001, ‘Retailing in India: Trends and opportunities’, Business Line: Catalyst, February 15.
11. Devasahayam, Madona 1998, ‘Big Deal’, Praxis Quarterly Journal on Management, August, Vol.2, No.2.
12. Majumdar, S.2002, ‘FDI in retailing: India as a supermarket’, Business Line, Tuesday, Sep17.
13. Kannan, S. 2001, ‘Huge potential awaits retailing’, Business line, Thursday, September 13.

AUTHOR(S) PROFILE

Konda Santosh Kumar, received MBA degree in Marketing from Kottam Institute of Advanced Studies, Osmania University, Andhra Pradesh, India and B.Com Computers degree from Nalanda Degree College, Kakatiya University, Andhra Pradesh, India in 2006 and 2004 respectively. Presently working as Assistant Professor in Department of Management Studies at **VARDHAMAN COLLEGE OF ENGINEERING** (Autonomous), Hyderabad. Telangana State, India.