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Challenges and Winning Strategies for organised Retailers

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Abstract: Indian Retail is currently the booming and attracting huge attention from all parts of the economy and it is expected to continue for at least two-three decades. According to GRDI (Global Retail Development Index 2015) Indian market is expected to grow \$1.3 trillion by 2020, and GDP is expected to grow at 8% over next three years, by making India the worlds fastest – growing major developing market. Of this, organized retail is expected to grow at a rate of 25% p.a. This paper provides information about retail market in India, forms of retail markets in India, prevailing retail formats in India and it mainly focuses on the market space and growth for organised retail market and the unique challenges. From this study it was found that competition from unorganised retailers, changing consumer preference, entrants of global retail giants etc., are challenges faced by organised retailers and strategies like understanding customer, appointing skilled manpower, effective supply chain management, government intervention etc., to be adopted by organised retailers to overcome the challenges.

Key words: Retailing, Organised retail, Unorganised retail, Challenges, Retail formats, Kirana shops, Strategies.

I. INTRODUCTION

Retailing is the link that connects the manufacturer and the consumer. It involves a set of business activities that adds value to the products and services sold to the final consumer for their personal, family, or household use. In India, retailing has become one of the largest industries and the size of the economic activity in this industry is bound to have an impact on not only the consumers and manufacturers but also the whole economy.

Indian retail market is the fourth largest market and one of the fast developing and dynamic sector with several players entering the market; however, it is highly fragmented when compared to other countries retail market. (KT Kearney Global Retail Development Index 2015) reveals, “India rises to 15th, behind the solid growth in retail sales and strong prospects for future GDP growth. India's retail market is expected to grow to \$1.3 trillion by 2020, and GDP is expected to grow at eight percent over the next three years, making India the world's fastest-growing major developing market.” As the future for this sector is quite promising, observe closely, the unorganized retail is in the same levels but the actual growth can be seen in the organized retail sector. It is estimated that the modern retail will be at USD 175-200 billion by the year 2016.

Indian retail industry is divided into organised and unorganised retail. First, organised retail refers to trading activity is undertaken by licensed retailers, such as departmental stores, supermarket, hypermarket, malls etc. Second, unorganised retailers are traditional retailers such as local kirana shops and mom & pop shop. Kirana is a small, usually family-owned shop selling groceries and other sundries. The second shop -mom &shop is a small, independent, usually family-owned, controlled, and operated business that has a minimum amount of employees, has only a small amount of business volume, and is typically not franchised, therefore open for business only in a single location and in general these retail establishments are called as shops/stores.

II. REVIEW OF LITERATURE

Vidushi Handa and Navneet Grover (2012) in their paper entitled “Retail Sector in India: Issues & Challenges”, provides detailed information about the growth of retailing industry in India. This paper examines the growing awareness and brand consciousness among people across different socio-economic classes in India. In addition, how the urban and semi-urban retail markets are witnessing significant growth. This paper also explores the role of the Government of India in the industries growth and the need for further reforms. This research includes the growth of retail sector in India, strategies, strength, and opportunities of retail stores, the retail format in India, recent trends, and opportunities and challenges. This paper concludes as the likely impact of the entry of global players into the Indian retailing industry. It also highlights the challenges faced by the industry in near future.

Kusuma et al. (2013) in their paper entitled “A Study on Organized Retailing and its Challenges and Retail Customer Services,” provide information about the growth of retailing in India. In addition, focuses on the challenges faced by organized retail sector in India. It also emphasizes on major players of retailers in India and customer services provided by the retailers. This paper also deals with various retail formats and the opportunities for the growth of retail industry India and provides some suggestions to overcome the challenges.

Prafulla Sudame and Brijesh sivathanu (2013) in their research paper entitled “Challenges Affecting the Organized Retail Sector”, provide the status of the retail sector in India and the detailed information about the challenges faced by the retail sector in India. This includes the opportunities of retail stores, the retail format in India, and the recent trends in retail. This research paper surveyed the retail managers understanding to the challenges affecting the retail sector. It concludes with providing the detailed opportunities available for the retail sector.

Pawan Kumar (2013) in his paper entitles “Organized Retail Sector: Future, Challenges and Opportunities in India”, intends the emergence of organized retailing in India. In this era of globalization, as the economy changes rapidly, retail sector also transforms from traditional to organized retailing. Due to changing scenario of world’s economy, retail sector attracts the attention of scholars make some efforts relating to study of opportunities and challenges. Since efforts have been made in this paper to highlights the present status, challenges and opportunities of the retail sector in India.

Pugalanthi (2013) in his article entitled “Retail Market in India,” discusses the important aspect of the current economic scenario in India is the emergence of organized retail. There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the future. Major industrial houses have entered this area and have announced very ambitious future expansion plans. Transnational corporations are also seeking to come to India and set up retail chains in collaboration with big Indian companies. However, opinions are divided on the impact of the growth of organized retail in the country. This paper attempts at providing a retailing scenario in India and scope for future research in this area.

Kamal and Ashish Kumar (2014) in their article entitled “Retail Sector: Growth and challenges perspective in India”, discuss the growth and challenges in Indian retail industry and major problems for Indian retailers and as well as for the foreign retailers. This research work identified the detailed information about the growth and challenges of the retail industry in India. This research work revealed that how since past few years retailing has been a promising industry and opened a door for the retailers and foreign investors. Due to changing scenario of world’s economy, retail sector attracts the attention of scholars to make some efforts relating to the study of growth and challenges. Since efforts have been made in this paper to highlights the present status, growth, opportunities and problems of the retail sector in India.

Kanwaljeet (2015) in his research paper entitled “Organised Retailing in India: Opportunities and Challenges”, provides detailed information about the growth of retailing industry in India, different retail formats. For instance, FDI in retail and how it can prove to be a game-changer in the organised retail scenario. This research concludes that organised retail will grow in

India and that too at a substantial rate and will prove to be an important pillar for the development of the country and the economy and it highlights the challenges faced by the industry in near future.

Rahul Singh and Jeet Singh (2015) in their paper entitled “A Study on the Challenges Arising in the Organised Retailing in India”, this study focuses on the challenges and suggests certain measures to reduce these challenges. The study presents the perception of organized retailers in the Moradabad city regarding the challenges faced for retailers and customers when servicing. The paper concludes that the day is not far away when the fast growth of organized retailing can be possible in India.

III. OBJECTIVES

1. To know the current state of organised retailing
2. To study the challenges faced by organised retailers.

IV. RESEARCH METHODOLOGY

This is a theoretical paper and hence, it is based only on secondary data. This data were collected from various books, websites, and journals, which provided information on the retail industry in India.

V. EVALUATION OF RETAIL MARKET IN INDIA

Earlier on retailing in India was mostly done through family-owned small stores with limited merchandise, popularly known as kirana or mom-and-pop stores. In those times, food and grocery were shopped from clusters of open kiosks and stalls called mandis. There were also occasional fairs and festivals where people went to shop. In the twentieth century, infusion of western concepts brought about changes in the structure of retailing. There were some traditional retail chains like Nilgiri and Akbarallys that were set up on the lines of western retail concepts of supermarkets. The government set up the public distribution system (PDS) outlets to sell subsidised food and started the Khadi Gram Udyog to sell clothes made of cotton fabric. During this time, high streets like Linking Road and Fashion Street emerged in Mumbai. Manufacturers such as Bombay Dyeing started forward integrating to sell their own merchandise. Shopping centres or complex came into existence, which was a primitive form of today’s malls. (www.naukrihub.com, www.citeman.com)

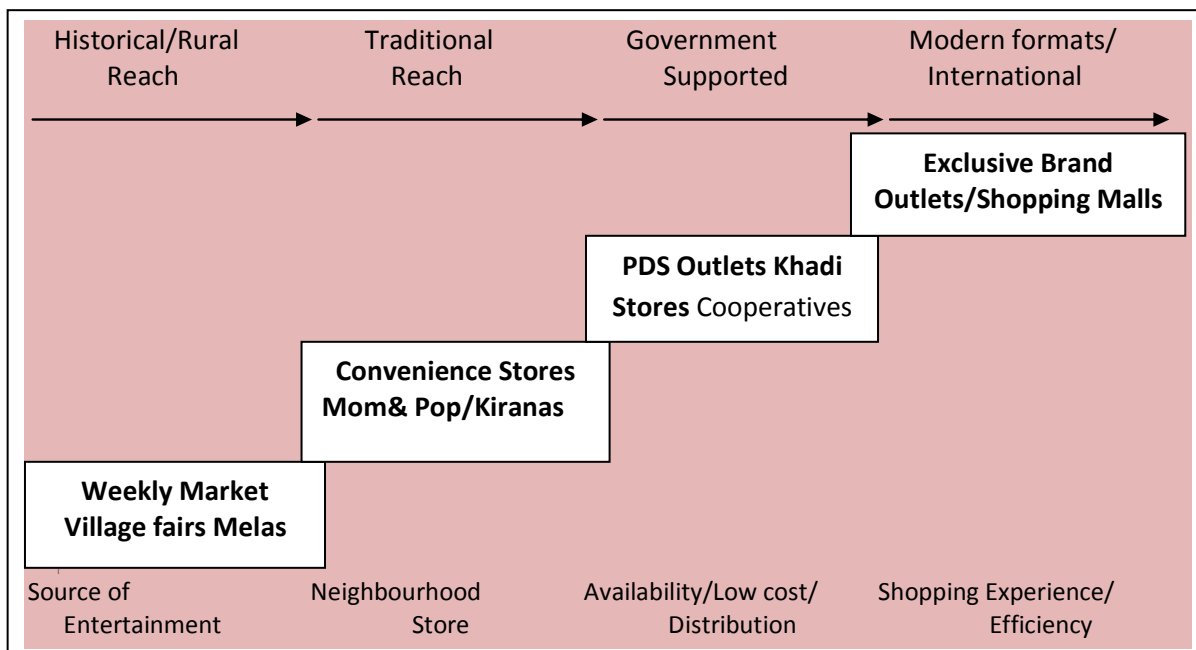


Fig.1 Evolution retail market in India

Source: Kuldeep Singh, “Retail Management in New Dimension” Global Vision Publishing House, New Delhi, First Edition 2011, Pg.470.

VI. PRESENT SCENARIO OF RETAIL MARKET IN INDIA

India is the fifth largest retail market in the world. The country ranks fourth among the surveyed 30 countries in terms of global retail development. The current market size of Indian retail industry is about US\$ 520 billion. Retail growth of 14 per cent to 15 per cent per year is expected through 2015. By 2018, the Indian retail sector is likely to grow at a CAGR (Compound Annual Growth Rate) of 13 per cent to reach a size of US\$ 950 bn. Retailing has played a major role the world over in increasing productivity across a wide range of consumer goods and services. In the developed countries, the organised retail industry accounts for almost 80 per cent of the total retail trade. In contrast, in India organised retail trade accounts for merely 8-10 per cent of the total retail trade. This highlights a lot of scope for further penetration of organized retail in India. (www.ibef.org).

VII. FORMS OF RETAIL MARKET IN INDIA

The retail industry is divided into organised and unorganized retail. Indian retail is dominated by a large number of small retailers consisting of the local kirana shops, owner-manned general stores, chemists, footwear shops, apparel shops, paan and beedi shops, hand-cart hawkers, pavement vendors, etc. which together make up the so-called “unorganized retail” or traditional retail.

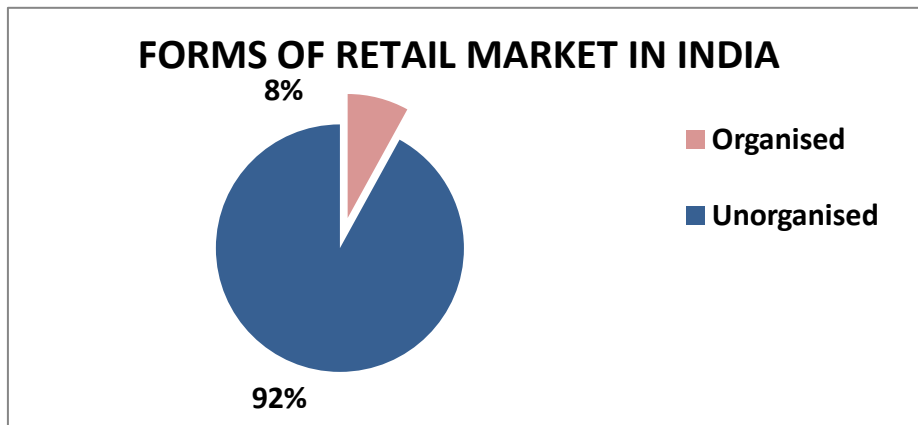


Fig: 2 – Forms of retail market in India
 Source: India Briefing Magazine dated August 14, 2014

As can be seen from Figure 2, it is evidenced that unorganised retailers cover 92 per cent of the retail market and organised retailers cover only eight per cent.

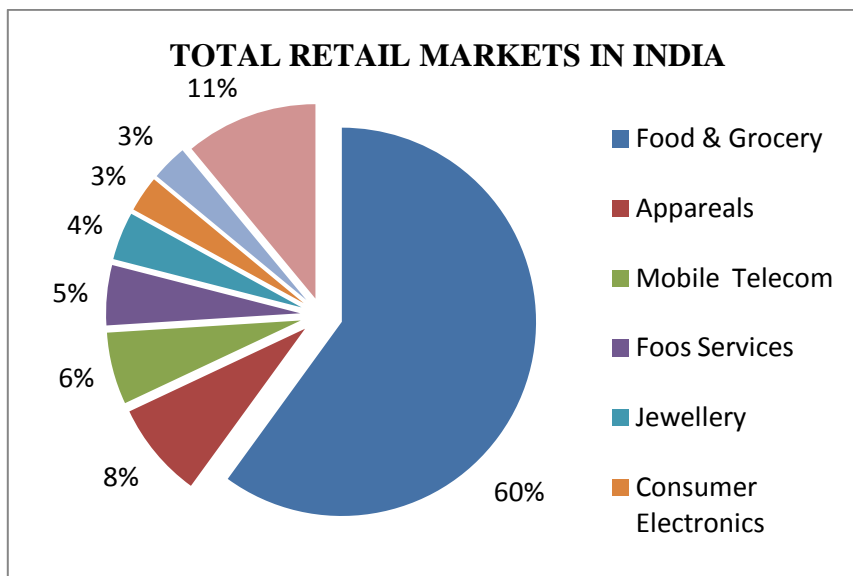


Fig: 3 – Total retail market In India
 Source: India Briefing Magazine dated August 14, 2014

Figure 3 identifies the total retail market share of products in India. The retail market comprises of food and grocery (60%), apparels (8%), mobile and telecom (6%), Foodservice (5%), Jewellery (4%), and Consumer electronics (3%), pharmacy (3%) and others (11%).

A. Organised retail

The Organised retailing refers to the trading activities undertaken by licensed retailers those are registered themselves for sales tax, income tax, etc. These include corporate backed hypermarkets, retail chains, and the private large businesses.

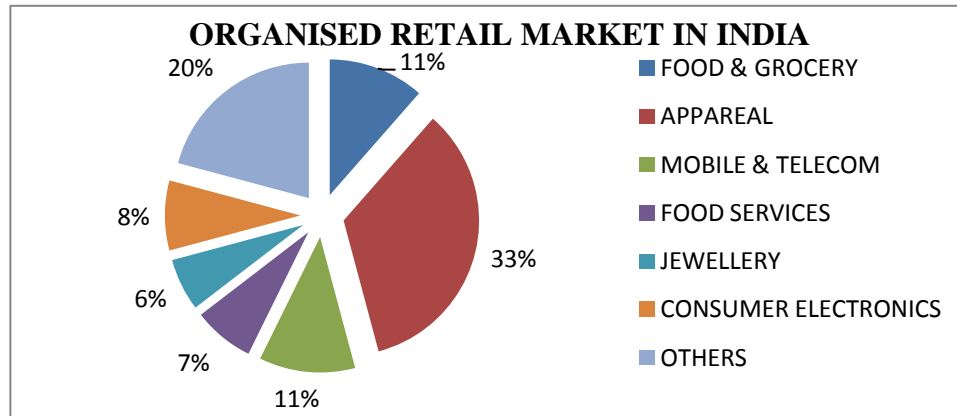


Fig: 4 – Organised retail markets in India
Source: India Briefing Magazine dated August 14, 2014

Figure 4 identifies the total organised retail market share of products in India. The retail market comprises of food and grocery (11%), apparels (33%), mobile and telecom (11%), Foodservice (7%), Jewellery (6%), and Consumer electronics (8%), and others (20%).

B. Unorganised Retail

The unorganized retail sector includes a large number of small shops and small retailers consisting of the local kirana shops, owner operated general stores, chemists, apparel and footwear shops etc. Traditionally, the small store (kirana) retailing has been one of the easiest ways to generate self-employment, as it requires minimum investments in terms of land, labour, and capital. The following are the categories of unorganised retailers: (Vidushi Handa and Navneet Grover-2012)

Fruit & vegetable sellers –Sells fruits and vegetables.

Food stores -Result of bakery products. Also sells dairy and processed food and beverages.

Non-Vegetable Store-Sells chicken and mutton.

Kirana I -Sells bakery products, dairy and processed food, home and personal care and beverages.

Kirana II -Sells categories available at a kirana –I store plus cereals, pulses, spices and edible oils.

Apparel -Sells men's wear, women's wear, innerwear, kinds & infant wear.

Footwear -Sells men's wear, women's wear, kid's wear

Customer durables & IT-Sells electronics, durables & IT products.

Furnishing -Sells home lines & upholstery.

Hardware -Sells sanitary ware, door fitting, tiles.

General mechanize -Includes lighting, stationery, toys, gifts & crockery

VIII. FORMATS OF RETAIL MARKET IN INDIA

The various forms of organized retail are:

A. Departmental store

A department store is a large store with a wide variety of products shelved such as clothing, house wares, furniture, appliances, and toys so on. The value proposition of this store is that it provides a one-stop shop catering to varied consumer needs.

B. Super markets

Super markets are extremely large self-service retail outlets with the same value proposition as delivered by the department stores - one stop shop catering to varied consumer needs. For example, Food world.

c. Hyper-marts

It is larger than a super market, sometimes with a warehouse appearance and generally located in quieter parts of the city. These stores offer vast choice at low prices and include services such as cafeterias. For example,- Big Bazaar.

D. Discount stores

These types of stores offer discounts on the retail price by selling high volumes and reaping the economies of scale. The value proposition attached to these types of formats is in the name itself - low prices or at a discount.

E. Convenience stores

Convenience stores are small self-service formats located in crowded urban areas. The value proposition attached to these types of formats is a convenient location and extended operating hours.

F. Branded store

The exclusive showrooms either owned or franchised out by a manufacturer are termed as branded stores. They offer a complete range for a given brand with certified product quality.

G. Specialty stores

This type of store focuses on a specific consumer need and caters to most of the available brands. These types of stores provide greater choice to the consumers and enable brand comparison. For example, IKEA

H. Shopping malls

An enclosure having different formats of in-store retailers, all under one roof is termed as a shopping mall. This type of a format is gaining importance these days. The benefit of this type of format is that different shops are located close to each other, thus enabling convenience of shopping.

IX. CHALLENGED FACED BY ORGANISED RETAILS

The Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organised retailing formats. In spite of all positives, there are certain challenges that organised retailers face today which restrict their growth. The following are the challenges for the organised retailers.

A. Cut throat competition from unorganized retailers

Unorganised retailers dominate Indian retail market. As high as unorganized retailers who run stores at convenient location, offers services like credit facility, do 92 per cent of the retail business as door delivery etc. that attracts the majority of the customers.

B. Changing consumer preference

A success of a retail business is based on customer satisfaction. Satisfying a customer is not an easy task and the customer's choice and preference change unpredictably because of high disposable income and life-style choices, exposure to western lifestyle. Therefore, it is a big challenge for organized retailers to attract customer and to retain them.

C. Entrance of global retail giants

Indian government permitted 100 per cent FDI (Foreign Direct Investment) in single brand retail year in 2011 and 51 per cent FDI in multi-brand retail in the year 2012 which paved the way for global retail giants to step into the Indian market.

D. Infrastructure challenges

One of the major challenges that organized food retailers' face today is poor infrastructure. Poor transportation and lack of cold storage facilities, power, and communication are major factors in slowing the development of food retail in India.

E. Lack of proper supply chain management

Poor supply chain management, lack of cold storage facilities, poor warehousing facilities, bad roads, etc. are contributing in increasing the cost of logistic and finally it will affect the retailers.

F. Frauds in retail

A common challenge all retailers faced is Fraud; frauds by the supplier, thefts, shoplifting, and carelessness in supervision etc. These challenges are difficult to handle and this happens even after the introduction of surveillance such as the use of CCTVs (Closed Circuit Televisions) and POS (Point of Service) systems.

G. Shortage of skilled manpower

Shortage of skilled manpower is one of the challenges facing the organized retailers in India. Retailers have great difficulty in finding skilled manpower for which retailers have to pay more in order to retain them.

H. Real Estate Challenges

Lack of retail space, high rental, and limited space availability in the prime area, high tax on the rental area are the major real estate challenges faced by organized retailers.

I. Changes in government policies

A change in government policy is again a challenge for organized retailers. For instance, policies by the Ministry of Commerce, which regulates the retail policy, and the Ministry of Consumer Affairs, which regulates retailing in terms of licenses and legislations.

J. Other Challenges

- Lack of effective stock management
- Ineffective retail management system
- Problems with suppliers
- High administration cost
- Huge spending on advertisement
- Huge spending on Promotional activities
- Complex tax system

- Lack of government support

X. STRATEGIES TO OVERCOME CHALLENGES

A. Understanding the customer

Customer is the king of any business and Customers' preference plays very important role in success of retail business. So the retailers' in order to survive or exist in the market have to understand their customers taste and preference. Customers taste and preference is changing day-by-day due to high disposable income and life style choices, exposure to western lifestyle etc., so the has to take certain steps to understand their customers like feedback mechanism, after sales service, informing about new arrivals etc.

B. Appointing skilled manpower

Shortage of skilled Manpower is one of the biggest challenges faced by organised retailers. In order to overcome this challenge retailer should select right person for right job by giving proper training and beginning of specialized training centre and specialized course in retail.

C. Having good relationship with suppliers

Success of retailers depends not only on customer but also on relationship with supplier. So the retailers should adopt certain measures to satisfy suppliers' expectations like maintaining personal contacts, prompt payment, placing regular order, supply of market intelligence etc

D. Effective supply chain management

Proper infrastructure like road, electricity, warehouse facility etc., and storage and transport logistics would help for effective supply chain management.

E. Effective retail management system

Setting up a regulatory body for the governing the operations of retail sector, enforcing uniform quality standards, establishment of national commission on retail etc., will help for effective retail management system.

F. Increasing retail space to international standards

Focusing on certain aspects like improving the quality of retail spaces, advancement in the logistics and support infrastructure, retail research and analysis will help to increase retail space to international standards.

G. Restriction on FDI

One of the biggest challenges faced by organised retailer in entrants of global retail giants. So there should be certain policy or act to discourage foreign direct investments.

H. Government intervention

An individual or group of retailers cannot bring any changes; ever thing is in the hands of government. So government intervention is very much essential for development of organised retail.

XI. CONCLUSION

This paper attempts to the landscape of the retail market in India, forms of retail markets in India, prevailing retail formats in India and it mainly focuses on the market space and growth for organised retail market and the unique challenges.

Unorganised retailers dominate the Indian retail sector retailers as this sector own 92 per cent of the retail stores and the share of the organised retail sector is only eight per cent. Currently, the organised retail industry is in growth phase, where

numbers of retail formats are entering day by day. In spite of the rapid growth of organised retailer, the unorganised retailer continues to play a vital role and this poses a massive challenge to organised retailers. To overcome the challenge the organised retailers need to improve infrastructure, strengthening supply chain, real estate availability.

Above all, a successful organised retailer is one who understands and satisfies the customers. This customer is king mantra will only keep the organised sector to flourish whereas unorganised sector has a distinctive advantage in knowing the customer preference.

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