A STUDY OF ORGANIZED RETAIL SECTOR’S GROWTH AND ITS FUTURE PROSPECTS IN INDIA

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ABSTRACT

The retail sector has played a surprising role throughout the world in ever-increasing productivity of consumer goods and services. Retailing in India is gradually inching towards becoming the next boom industry. India has one of the largest numbers of outlets in the world of the 14.5 million retail outlets present in the country, nearly 7.2 million sell food and related products. The Indian retail market is the fifth largest retail destination globally. The Indian retail industry is the major sector among all the industries, accounting for over 10 percent of the country’s GDP and around 8 percent of the employment. The main challenge facing the organized sector is the opposition from unorganized sector. The organized retail segment is mainly dominated by the apparel and textile segment followed by the food, grocery and beverages segments. Organized retailing offers huge potential for future growth of retailing in India. This paper ‘A STUDY OF ORGANIZED RETAIL SECTOR’S GROWTH AND ITS FUTURE PROSPECTS IN INDIA’ will provide information about the retail sector’s growth in India and future scenario of retail as well the major factor for the growth of retail sector in India, also focuses on the challenges faced by organized retail sector in India. India's retail market is expected to grow at 7% over the next 10 years, reaching a size of US$ 850 billion by 2020. Keywords: Retailing, Entrepreneur, Foreign Direct Investment, Gross Domestic Product, Growth Drivers.

INTRODUCTION:

India is becoming most advantageous retail destination in the world has been in attention for past few years. Today retail sector contributing 22-26% to country’s GDP and also providing 8% major part of employment, which is highest after agriculture. India has $600 billion worth of retail market in year 2015. Indian retail industry is ranked among the ten largest retail markets in the world. Retail market of India today is the second fastest growing economy of the world after China. India is one of the largest emerging markets, with a population of over one billion. It is one of the largest economies in the world in terms of

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purchasing power, carrying 3rd position in the world at present. The market is growing exponentially, as economic growth brings more of India’s people into the consuming classes and organized retail lures more and more existing shoppers into its open doors.

The change of attitudes of Indian consumers and the emergence of organized retail formats have transformed the face of retailing in India. It also emphasize on major players of retailers in India and customer services provided by the retailers. This research also deals with various retail formats and the opportunities for the growth of retail industry in India and also provides some suggestions to overcome the challenges.

OBJECTIVES

The specific objectives of this paper are as follows:-
1. To study growth of organized retail sector in India.
2. To know the major players of organized retailer sector and services provided by them.
3. To know the challenges faced by the organized retail sector in India.
4. To make some suggestions to overcome the challenges of organized retail sector.

RESEARCH METHODOLOGY

This paper is the outcome of a theoretical and book study on retailing in India as well special reference to organized retail sector in India. To complete this, various books, journals and papers, periodicals have been consulted; reports of various researches like A.T. Kearney Report, Ernst & Young, Indian Council for Research on International Economic Relations (ICRIER), KSA Technopak have been considered. Internet references have also been done for achieving the purpose and objectives of the study.[1]

Information has been sourced from various books, trade journals, government publications, newspapers etc. and research is descriptive in nature.

WHAT IS RETAILING?

Retail word comes from the French word “retaillier” which refers to "cutting off, clip and divide" or “or to break bulk “ in terms of tailoring. In simple terms, it implies a first – hand transaction with the customer. It first was recorded as a noun with the meaning of a "sale in small quantities" in (French). Its literal meaning for retail was to "cut off, shred, paring". Like the French, the word retail in both Dutch and German (detail handled and Einzel handled respectively) also refer to sale of small quantities or items. Retailing is a distribution channel function, where one organization buys products from supplying firms or manufactures products themselves, and then sells these directly to consumers.[2]

Retailers offer many benefits to suppliers and customers as resellers. Consumers, for instance,
are able to purchase small quantities of an assortment of products at a reasonably affordable price. Similarly, suppliers get an opportunity to reach their target market, build product demand through retail promotions, and provide consumer feedback to the product marketer.

Evolution of Indian retail sector

Retailing in India has a long history. Early retailing in India can be traced back to the weekly haats where vendors used to put their offerings on sale. Kirana stores have traditionally dominated the Indian retail market for a long time. Most of the retail stores in India are small family run businesses utilizing predominantly household labor. Organized retail began to make its mark in India in the 1970’s when shops like Raymonds, Nallis and Bata were in the market through their exclusive stores or franchisees. Till the early 1980’s Indian people did not visit large retail stores to buy ready-to-wear clothing. During the 1990’s, the wave of liberalization, privatization and globalization ushered in new retailing formats, modern techniques and exclusive retail outlets like Shopper’s Stop(1991), Pantaloon (1997) and others. Further transformation was witnessed during the early years of 21st century, with the opening of the numerous supermarkets, departmental stores, chain stores and malls across the country, and emergence of hypermarkets and big discount stores. [3]

Consumers in select Indian cities have gradually begun to experience the quality, preference, convenience and benefits of organized retail industry in between 2000 to 2010. Organized retailing has become popular in big cities in India and most of the metropolitan cities and other big cities are flooded by modern organized retail stores. Many semirural areas have also witnessed entry of such organized retail outlets. The Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organized retailing formats. The industry is moving towards a modern concept of retailing.

Future of Indian retail sector

India’s GDP stands at the trillion dollar mark, and with a sustained growth rate of over 8 per cent, it is confidently poised to be the leading centre of global economy by 2020. GDP of India is expected to be around US$ 1.1 trillion by 2010 and would reach a staggering US$ 37 trillion by 2050 which would make it the third largest economy in the world. This would mean that India’s GDP will increase close to US$ 1 trillion on an average year-on-year over the next 40 years. This fast GDP growth is driving towards Indian consumerism. Indian consumers today are more confident and willing to splurge owing to increased income levels. India's consumer market will be the world's fifth largest (from twelfth) by 2025 and India's middle class will
The rapid growth of e-commerce has retailers thinking of their multi-channel strategy. “E-commerce cannot be ignored,” said Neville Noronha, chief executive officer, Avenue Supermarts Ltd, which runs the D’Mart retail chain, adding his company is evaluating its e-commerce strategy.

India’s retail market expected to **double in next 5 years: report**

While the overall retail market will grow at 12% per annum, modern trade will grow twice as fast at 20% per annum, and traditional trade at 10%. Modern trade is expected to grow three times to $180 billion in 2020 from $60 billion in 2015 and e-commerce at an even faster clip to quadruple in the same time to become a $60-70 billion market, said the report.

By 2020, average household income will increase three times to $18,448 from $6393 in 2010. Moreover, urbanization will increase to 40% from 31% and over 200 million households will be nuclear, representing a 25-50% higher consumption per capita spend. Also, attitudinal shifts will be seen as 75% of the population will belong to generation I, that is they were below 14 years of age when the economy started opening and hence will have higher consumption levels.

The growing middle class is an important factor contributing to the growth of retail in India. By 2030, it is estimated that 91 million households will be middle class, up from 21 million today. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States today.

In India, Retail industry is proving the country’s largest source of employment after agriculture, which has the deepest penetration into rural India.

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For instance, the sales per square foot at Indian retail stores at Rs.1,500-2,000 per square foot is much lower than the international average of Rs.8,000-12,000 per sq. ft. Even the gross margins are lower in India by 7-8% than the international standards and the rentals are higher by 1.5-3% on an average, said the report. [6]

The major factors responsible for the growth of organized retailing in India are as follows:

Organized retailing is a recent development. It is the outcome of socioeconomic factors. Within a very short span of time, Indian retail industry has become the most attractive, emerging retail market in the world.

Healthy economic growth, changing demographic profile, increasing disposable incomes, changing consumer tastes and preferences are some of the key factors that are driving growth in the organized retail market in India.

1. Growth of middle class consumers:

With rising consumer demand and greater disposable income has given opportunity of retail industry to grow and prosper. They expect quality products at decent prices. Modern retailers offer a wide range of products and value added services to the customers. Hence this has resulted into growth of organized retailing in India.

2. Increase in the number of working women:

Today the urban women are literate and qualified. They have to maintain a balance between home and work. The purchasing habit of the working women is different from the home maker. They do not have sufficient time for leisure and they expect everything under one roof. They prefer one-stop shopping. Modern retail outlets therefore offers one store retailing.

3. Value for money:

Organised retail deals in high volume and are able to enjoy economies of large scale production and distribution. They eliminate intermediaries in distribution channel. Organized retailers offer quality products at reasonable prices. Example: Big Bazaar and Subhiksha. Opportunity for profit attracts more and more new business groups for entering into this sector.

4. Emerging rural market:

Today the rural market in India is facing stiff competition in retail sector also. The rural market in India is fast emerging as the rural consumers are becoming quality conscious. Thus due to huge potential in rural retailing organized retailers are developing new products and strategies to satisfy and serve rural customers.

5. Entry of corporate sector:

Large business tycoons such as Tata’s, Birla’s, and Reliance etc. have entered the retail sector. They are in a position to provide quality
products and entertainment. As the corporate – the Piramals, the Tatas, the Rahejas, ITC, S.Kumar’s, and mega retailers- Crosswords, Shopper’s Stop, and Pantaloons race to revolutionize the retailing sector.

6. Entry of foreign retailers:
Indian retail sector is catching the interest of foreign retailers. Due to liberalisation multinationals have entered out country through joint ventures and franchising. This further is responsible for boosting organized retailing.

7. Technological impact:
Introduction of computerization, electronic media and marketing information system have changed the face of retailing. Organized retailing in India has a huge scope because of the vast market and the growing consciousness of the consumer about product quality and services. One of the major technological innovations in organized retailing has been the introduction of Bar Codes.

8. Rise in income:
Increase in the literacy level has resulted into growth of income among the population. Such growth has taken place not only in the cities but also in towns and remote areas. As a result the increase in income has led to increase in demand for better quality consumer goods. Rising income levels and education have contributed to the evolution of new retail structure.

9. Media explosion:
There has been an explosion in media due to satellite television and internet. Indian consumers are exposed to the lifestyle of countries. Their expectations for quality products have risen and they are demanding more choice and money value services and conveniences.

10. Rise of consumerism:
With the emergence of consumerism, the retailer faces a more knowledgeable and demanding consumer. As the business exist to satisfy consumer needs, the growing consumer expectation has forced the retail organizations to change their format of retail trade. Consumer demand, convenience, comfort, time, location etc. are the important factors for the growth of organized retailing in India.[7

Challenges facing by Indian retail sector
The organized retail sector in India has been witnessing various issues and challenges which are proving to be a hurdle for its fast-paced growth. Even though the organized retail sector is in a very nascent stage in India, it provides ample opportunities for retailers, and mitigation of a few challenges will help the sector attain higher economies of scale and growth. Elucidated below are the challenges and risks that the sector faces:

- Global economic slowdown[8]
- Competition from the unorganized sector
Retail sector has no recognition as an industry
Lack of basic infrastructure
Supply-chain inefficiencies
Challenges with respect to human resources and trained manpower
Margin Pressure

Other challenges are:
The Indian government has allowed 51% foreign direct investment (FDI) in the India retail sector to one brand shops only. This has made the entry of global retail giants to organized retail sector in India difficult. This is a challenge being faced by the Indian organized retail sector. But the global retail giants like Tesco, Wal-Mart, and Metro AG are entering the organized retail sector in India indirectly through franchisee agreement and cash and carry wholesale trading. Many Indian companies are also entering the Indian organized retail sector like Reliance Industries Limited, Pantaloons, and Bharti Telecoms. But they are facing stiff competition from these global retail giants. As a result, discounting is becoming an accepted practice. These too bring down the profit of the Indian retailers. All these are posing as challenges facing the Indian organized retail sector. The challenges facing the Indian organized retail sector are there but it will have to be dealt with and only then this sector can prosper.[9]

**Suggestions:**
Indian retailers need to take advantage of this growth and aiming to grow, diversify and introduce new formats has to pay more attention to the brand building process. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself. In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy.
In order for the market to grow in modern retail, it is necessary that steps are taken for Rewriting laws, restructuring the tax regime, accessing and developing new skills and Investing significantly in India.
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. These stores are not affected by the modern retailing as it is still considered very convenient to shop. In order to keep pace with the modern formats, kiranas should start providing more value-added services like stocking ready to cook vegetables and other fresh produce and also
services like credit, phone service, home delivery etc.

Due to the FDI restrictions the international players are looking for alternative avenues to enter the Indian markets. However FDI restrictions in retailing have not deterred prominent international players from setting up shops in India. In order to attract the major international companies the Indian government should take decision regarding the FDI in retail sector.

Integration of rural initiatives into business model like ITC. Corporate should supplement government efforts & resources (infrastructure development, education system, storage). Creating retail stores which should be rural in nature so that the rural masses identify themselves with these stores. Innovative & Exciting Initiatives such as Village BPO should be given impetus to tap the talent in the rural India.

**Conclusion**

Indian retailing industry is significantly contributing towards the GDP and employment generation. Unorganized retailing has a predominant chunk of retailing in India. Organized retailing has its growth because of the propensity to consume behavior of Indian middle class segment. But, this was affected by the global financial meltdown. Despite of this retailing in India will have a tremendous future, if retail players concentrate on Indian rural segment, having vast and untapped potential. For this, the strategy should be different from that of urban to turn challenge as an opportunity.

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