



Issues & Challenges in Retail Sector in India

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ABSTRACT

This paper provides detailed information about the growth of retailing industry in India.

It examines the growing awareness and brand consciousness among people across different

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

KEYWORDS : Retailing, Unorganized Sector, Organized Sector, Traditional Retail, Modern Retail.

1. INTRODUCTION

India is the second fastest growing economy in the world. It is third largest economy in the world in terms of GDP and fourth largest economy in terms of Purchasing Power Parity. India presents a huge opportunity to the world at age, to use as a hub. Standing on the threshold of a retail revolution and witnessing a fast changing retail landscape, India is all set to experience the phenomenon of global village. India is the "promised land" for global brands and Indian retailers

A "Vibrant economy". India tops in the list of emerging market for global retailer and India's retail sector is expanding and modernizing rapidly in line with India's economic growth.

The future is promising; the market is growing, government policies are becoming more

favorable and emerging technologies are facilitating operations. Retailing in India is gradually inching its way toward becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retail has entered India as seen in sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof. The Indian retailing sector is at an inflexion point where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth trajectory. The Indian population is witnessing a significant change in its demographics. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working-women population and emerging opportunities in the services sector are going to be the key growth drivers of the retail sector in India.

Apparels and consumer durables are the fastest growing vertical in the retail sector. Mobile phone as a product category has witnessed the highest growth in the consumer demand amongst

all retail products offering, with increasing penetration of telecommunication in towns and villages. The telecommunication sector has been adding on an average 5 million new users every month.

A COMPARATIVE PICTURE OF GDP CONTRIBUTION BY RETAIL SECTOR OF YEAR 2010 IS SHOWN BELOW: - TABLE 1

Sr. No.	Country	Contribution of retail sector to GDP
1	USA	12%
2	India	12%
3	China	8%–10%
4	Brazil	6%

With all these features and advantages, the opportunity for structural changes from unorganized retail industry format to organized format has made the Indian markets as a "Permissible ground" for global and domestic private players to fetch their goods and fuel the economy to grow.

1.1 DEBATE OVER ENTRY OF ORGANISED SECTOR IN RETAIL INDUSTRY

The Retail Sector of Indian Economy is going through the phase of tremendous transformation. The retail sector of Indian economy is categorized into two segments such as organized retail sector and unorganized retail sector with the latter holding the larger share of the retail market.

At present the organized retail sector is catching up very fast. The impact of the alterations in the format of the retail sector changed the lifestyle of the Indian consumers drastically. The evident

increase in consumerist activity is colossal which has already chipped out a money making

recess for the retail sector of Indian economy.

In fact, because the malls are offering attractive prices, they are squeezing out the small traders

who can no longer afford to compete - thereby sharpening the divide between the rich and poor

in India. But according to report of ICRIER, organized and unorganized retail will not only coexist but also grow substantially. the reason is the retail sector is growing on an overall basis hence the benefit of this growth will go to both the sectors and both sectors will progress though the share of organized sector will gradually increase. With the onset of a globalized economy in India, the Indian consumer's psyche has been changed. People have become aware of the value of money. Nowadays the Indian consumers are well versed with the concepts about quality of products and services. These demands are the visible impacts of the Retail Sector of Indian Economy.

2. INDIAN RETAIL SECTOR: AN OVERVIEW

India represents an economic opportunity both as a global base and as a domestic market. The real GDP is expected to grow at 8-10 percent per annum in the next five years and consuming class with annual Household incomes above Rs. 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. India's vast middle class and its almost untapped retail industry are key attractions for global retail giants wanting to enter newer markets.

2.1 MEANING OF RETAIL

The word retail is derived from the French word retailer, meaning to cut a piece off or to break

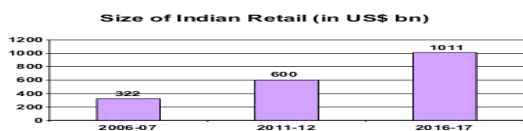
bulk. In simple terms, it implies a first-hand transaction with the customer. Retailing can be defined as the buying and selling of goods and services. It can also be defined as the timely delivery of goods and services demanded by consumers at prices that are competitive and affordable. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer. The industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today.

2.2 CURRENT SCENARIO OF INDIAN RETAIL MARKET

The size of Indian retail industry is more than US \$350 billion but it is highly unorganized. The organized sector has started developing in the past few years. Many International brands have entered the market. With the growth in organized retailing, unorganized retailers are fast changing their business models.

According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US \$322 billion in 2006-07 to US \$590 billion in 2011-12 and further US \$1 trillion by 2016-17.

CHART 1



Source: Technopak Analysis, CSO and other sources.

2.3 FDI NORMS

Regulatory controls on FDI have been relaxed considerably in recent years. Currently the government allows 51% FDI in single brand retailing and 100% in cash-n-carry business. However, the government’s plan to further open up the retail sector has hit the roadblock after facing strong political opposition and nationwide protests by small traders against the proposal to allow FDI in multibrand retailing.

2.4 FACTORS DRIVING THE GROWTH OR RETAIL SECTOR:-

Indian economy is growing at the rate of 8%, indicating a prosperous future. The consistent economic growth resulted in a decent rise in income level of the middle class. The thickening of the pocket of the consumer resulted in a revolution of the retail industry. Many International brands have entered the market. These are:

1) INCREASING DISPOSABLE INCOME: Rising disposable incomes in middle class and lower middle class with increase in employment opportunities for young adults in IT & IT enabled sectors are the major cause of retail growth in India.

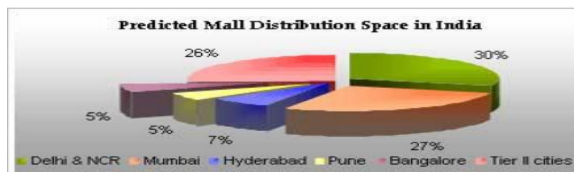
2) INCREASING NO. OF DUAL INCOME NUCLEAR FAMILIES: In India, hefty pay packets, nuclear family along with increasing working women population and dual income in family are the factors contributing to prosperous retail sector.

3) CHANGING LIFESTYLE AND CONSUMER BEHAVIOR: Due to increasing working population, comfortable life, travel and leisure are given importance. These key factors are growth drivers of retail sector in India which now boast of retailing almost all the preferences of life – apparel and accessories, Appliances, Electronics, cosmetics & Toilets cries etc.

4) EXPERIMENTATION WITH FORMATS: Due to competition in the market, retailing is still evolving and the sector is witnessing a series of experiments with new formats being tested out.

5) STORE DESIGN: Shopping malls and super markets are growing at a very faster rate. Improvements in infrastructure and enhanced availability of retail space, store design are the factors increasing the share of organized retail ad thereby contributing to growth of Indian retail sector.

CHART 2

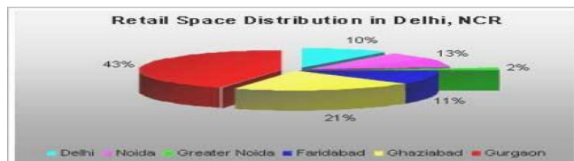


Source: Technopak Analysis, CSO and other sources

2.5 BOOM OF RETAIL IN NCR

The retailing configuration in India is fast developing as shopping malls are increasingly becoming familiar in large cities. When it comes to development of retail space specially the malls, the Tier II cities are no longer behind in the race. If development plans till 2007 is studied it shows the projection of 220 shopping malls, with 139 malls in metros and the remaining 81 in the Tier II cities. The government of states like Delhi and National Capital Region (NCR) are very upbeat about permitting the use of land for commercial development thus increasing the availability of land for retail space; thus making NCR render to 50% of the malls in India.

CHART 3



Source: Technopak Analysis, CSO and other sources

2.6 ISSUES BEFORE RETAIL RECTOR IN INDIA: ENTRY OF ORGANIZED RETAIL PLAYERS

In Indian retail sector organized retail is a recent phenomenon. It is a zero-sum game between 2 players:-

- a) organized sector &
- b) unorganized sector

India’s 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 & beedi shops, hand-cart hawkers, pavement vendors etc. which together make up the so-called Unorganized retail.

Organized retail is reflected in sprawling shopping centers, multi-plex-malls & huge complexes

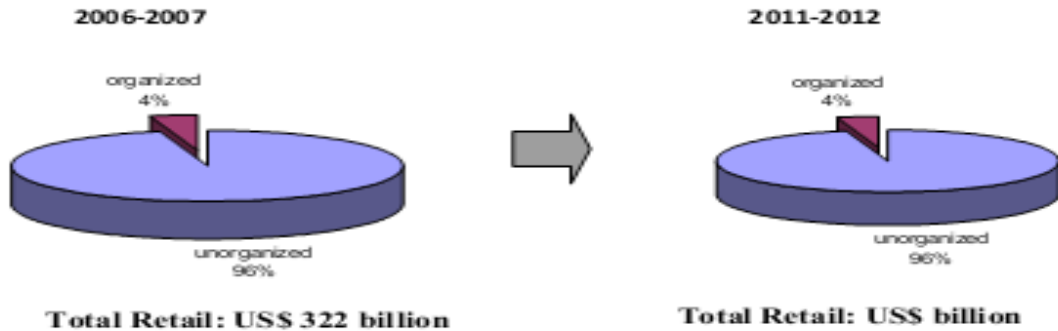
which offer shopping, entertainment and food all under one roof. The last 3-4 years have witnessed the entry of a number of organized retailers. Opening stores in various modern formats in metros and other important cities.

However, opinions are divided on the impact of growth of organized retail in the country. Concerns have been raised that growth of organized retail may have an adverse impact on retailers in the unorganized sector. In India, organized retail contributed roughly 4% of the total Indian retail 2006-07, which is very small even compared with most of the emerging market economics.

However. During the coming 9 years. It is projected to grow at a compound rate of 40-45 percent per annum and is estimated to contribute 16% to total Indian retail by 2011-12.

CHART 4

PROJECTION OF THE SHARE OF ORGANIZED RETAIL



Source: - Technopak Analysis

Interestingly, this huge growth in organized retail does not involve a decline in the business of unorganized retail, the sales of the unorganized retail, the sales of the unorganized sector is expected to grow by 10% p.a., from US\$ 308.8 billion 2006-07 to US \$ 495.6 billion in 2011-12.

3. UNORGANISED RETAIL SECTOR IN INDIA

Undeniably, around 96% of Indian retail sector is unorganized and hence majority of sales take place through unorganized stores popularly known as kirana or mom-and-pop stores.

The unorganized retail sector is expected to grow at about 10% per annum with sales rising from 309 billion in 2006-07 to reach US \$ 496 billion in 2011-12. Despite the steady expansion of organized retailers. Though organized sector is growing a faster rate, unorganized sector is still

preferred by the customers as they are more convenient and easy to approach. The kirana shop

owner knows that the buyer buys place first. The classification of the unorganized retail universe by category is shown below:

3.1 CATEGORIES OF TRADITIONAL RETAILERS

- 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 mens wear, womens wear, innerwear, kinds & infant wear.
- Footwear - Sells mens wear, womens wear, kids 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.

3.2 FUTURE TRENDS UNORGANISED SECTOR

1. The unorganized sector will grow @10% per annum but given the relatively weak financial of the unorganized sector and the space constraints on their companion prospects, this sector alone will not be able to meet the growing demand.

2. The unorganized sector will expand further due to its proximity, goodwill, credit sales, bargaining, loose items, convenient timings and romedelivery.

4. ORGANISED RETAIL SECTOR IN INDIA

The Indian retail sector is highly fragmented, consisting predominantly of small, independent,

and owner managed shop. The domestic organized retail industry is at a nascent stage.

India got started with organized chain retailing just a few years ago. There are just very few

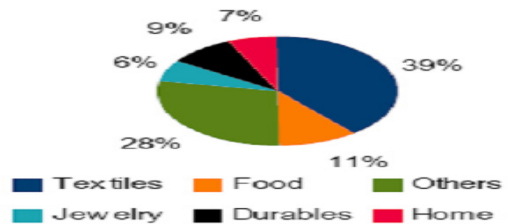
categories, the most prominent being apparel, where organized retail chains have had a significant presence for more than 3-4 years. Indian retailers have done very well. Particularly

after taking into account the various obstacles and hindrances like real estate costs, lack of trained manpower etc.

Growth of organized sector of retailing will yield efficiencies in the supply chain, enabling better access to markets, to producers and to customers. The strength of organized retail lies in resource availability. It can translate into efficient supply chain management, leading to faster inventory turnaround, resulting in improved button lines. It is anticipated that the further belongs to organized sector in India. India's organized sector is all set to explode. While the existing players such as future group, Bharti, Reliance Retail, Essar, Shopper's stop and Aditya Birla group are endeavouring to consolidate their markets, others such as Mohindra & Mohindra, Parsavnath &

DLF, Hero Honda & Indiabulls have announced plans to enter the retail sector.

CHART 5



Source: Economics times retail knowledge series

4.1 SHARE OF ORGANISED SECTOR IN RETAIL SECTOR

The increasing growth of retail sector is going to affect organised sector positively. Presently the organised sector does not enjoy a significant chunk of market share. When compared with developed countries, it is very low, a meager 4%.

4.2 MODERN RETAIL FORMATS IN INDIA

The face of India retail sector is changing, new & innovative business models are being adopted.

The formats prevalent in retail sector are:-

1. **HYPER MARKET** – Hypermarket offer a large basket of products, ranging from grocery. Fries & processed food, beauty & healthcare products etc. Example – Spencer's, Big Bazaar

2. CASH & CARRY – These are large B2B focused retail formats, buying & selling in bulk for various commodities and carry several thousand stock-keeping. Example – Mito, a Germany based C&G.

3. DEPARTMENT STORES - Department stores have a large layout with a wide range of merchandise mix, usually in cohesive categories, such as showed towards garments. Example:- Ebony, Shopper's stop, Westside

4. SPECIALITY STORES – Speciality stores are single category, focusing on individuals and group clusters of the same class with high product loyalty. Examples – Footwear stores, gift stores etc.

Examples- Archies, Woodlannd etc.

5. DISCOUNT STORE – A discount store is a retail store offering a wide range of products, mostly branded, at discounted prices or apparel or footwear brands. Example – Subhiksha, Koutons, Nike, Levis

6. CONVENIENT STORE – A convenience store is a relatively small retail store located near a residential area (closer to consumer), open long hours, 7 days a week and carrying a limited range of staples and groceries. Example – In & Out, Safal, 6ten.

5.IMPACT OF ORGANISED SECTOR ON OTHER SECTORS

Report of ICRIER published in Sept.-08 has concluded that the growth of organised retail headed by large corporate houses does not significantly impact small mom-n-pop retailers. The organised retailing has created a niche for itself by successfully overcoming drawbacks of unorganised retailing such as poor inventory management insensitivity to customer expectations, and reluctance to invest or human capital.

5.1 IMPACT ON CONSUMERS

Consumers have gained on multiple counts. The impact is

- i. Consumer spending has increased with the entry of organised retail.
- ii. Consumers are provided with wider variety under one roof at competitive prices.
- iii. All income groups have gained through organised retail purchases but the lower income consumers saved more.

5.2 IMPACT ON UNORGANISED SECTOR

The unorganised sector is affected in the following manner:-

1. Unorganised sector has not lost due to entry of organised sector. It has rather gained in terms of business as the overall retail economy is growing.
2. It has also gained in terms of its quality enhancement due to competition given by organised sector.
3. Some businesses have closed. The closure rate is 4.2% p.a. which is much lower than international rate of closure of small business, out of which only 1.7% closure is due to organised sector.
4. Small retailers have adopted the policy of extending more credit to customers to attract and retain customers.
5. They have become competitive by adopting improved business practices & technology upgradation.

5.3 IMPACT ON EMPLOYMENT

Employment potential of the Indian economy has increased. By providing direct employment to people in various sectors like small manufacturing sector especially food processing, textiles & apparel the unemployment rate will be reduced besides this construction packing, IT, transfer & other infrastructure sectors will also offer employment opportunities.

Besides giving employment to Professionals & skilled labour organized retail sector also generates a number of jobs for unskilled labour for the tasks of sorting, grading, labeling etc.

It may adversely affect employment in unorganized retail and the trade intermediaries associated with traditional supply channels but the additional jobs created will be much higher than those that are lost

5.4 IMPACT ON MANUFACTURERS

The impact on manufacturers is:-

- (i) Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures.
- (ii) Entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy.
- (iii) Manufacturers have started building and responding their brand strength and set up dedicated teams to deal with modern retailers.

5.5 IMPACT ON GLOBAL PLAYERS

It will help global players by providing them with the avenues for investments. Favorable demographic and psychographic changes in India's consumer class and the rising affluence of young India population is an important attraction that is attracting the global players to enter in Indian market

5.6 IMPACT ON RURAL POPULATION

Rural population is also going to be benefited by retail revolution i.e. organized retail. Retail market is estimated to cross US\$ 45.32 BILLION ON MARK BY 2010 and US 60.43 mark by 2012 according to a study by CII and YES bank . ITC' Champal sagar (India's first rural mall), DCM shriram group's maryali bazaar, retail giants like reliance, spencers and subhiksha are already expanding and semiurban and rurak areas.

5.7 IMPACT ON TECHNOLOGY

Retailing is a technology intensive industry. Successful retailers are using their distribution and information systems work closely with their vendors to predict consumer demand, shorten lead time, and reduce inventory holding and thereby saving cost .today online system link point of sales terminals to the main office .where detailed analysis on sales by item, classification stores or vendor are carried out online. The technological facilities used by organized retailers e.g. computerized accounting/ inventory control. Air conditioning also help the customers in time saving at the purchase point.

5.8 IMPACT ON GOVERNMENT REVENUE

Another significant advantage of organized retailing is its contribution to government revenue. unorganized retailers doesn't normally pay taxes and most of them are not even registered for sales tax, vat and income tax. Organized retailers by contrast, are corporate entities and hence fill tax returns regularly .the growth of organized retail has contributed in steady rise in tax receipts for the central , state and local government.

5.9 IMPACT ON INVESTMENTS

Organized retail is attracting inward both at domestic level and global level and several support industries like IT industries, cold chain infrastructure and logistics and warehouse distribution services in order to strengthen the supply chain . thus overall investment in retail sector is increasing and it helps in economic growth of the country.

But the Agitators have a point too. They are worried that the 15 million small retailers in the country may be forced out of existence. India has the largest retail economy in the world, according to a study by the CII (Confederation of Indian Industry) and A.T. Kearney.

8 CONCLUSION

India at the crossroads with regard to the retail sector. Several emerging market economics have gone ahead and reaped the benefits of modern retail. Politics is an unfortunate reality that has been coming in the way of success of organized sector and ultimately the overall retail sector. The hue and cry created by unorganized sector against Reliance Fresh, Wal-Mart especially in U.P, Jharkhand etc. is not appreciable, it is the major hindrance in the growth of retail sector. There is need of balanced approach to retail & govt. has to play a very vital role in shaping the future course. Though tradition retail has been performing a vital function in the economy, but it has to shed off its shortcomings and inefficiencies and this is actually happening.

Thus, the organized sector is not only impacting the other sectors positively but also it has benefited its own competition i.e. unorganized sector. So, organized sector becomes the growth mantra of Retail sector.

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