



## Small to Mall: A Study of Dynamic Diversification of Indian Retail Sector

### KEYWORDS

Organized Retailing, Un-organized Retailing

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**ABSTRACT** *In India, Retailing came with evolutionary formats from Kirana store to super market. In the initial stage this sector was highly un-organized, and after that it is carried forward and now it is expanding as hypermarket and supermarket. The retail sector is the second largest employer after agriculture in the country and also the second largest unexploited market after China. Due to its contribution of 14 to 15% in GDP it is also one of the pillars of Indian economy (McKinsey and Company 2007). There are some more than 14 million retailers in India. Retailing has been in our blood - as shopkeepers or as shoppers. However, unlike many other countries, India has its own unique character of size, geographical spread, cultural diversity, and multiplicity of formats being introduced at quick succession. This paper helps to give information about the journey of retail in India and evolves the extent Different phases of retail industry from before independence to till now.*

### INTRODUCTION TO RETAILING

Retail comes from the French word *retailier*, which refers to "cutting off, clip and divide" in terms of tailoring (1365). It first was recorded as a noun with the meaning of a "sale in small quantities" in 1433 (French). Its literal meaning for retail was to "cut off, shred, paring".

Like the French, the word retail in both Dutch and German (*detailhandel* and *Einzelhandel* respectively), also refers to the sale of small quantities of items.

According to Chetan Bajaj —Retailing is defined as a conclusive set of activities or steps used to sell a product or a service to consumers for their personal or family use. It is responsible for matching individual demands of the consumers with supplies of all the manufacturers".

In 2004, The High Court of Delhi defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing, a sale to the ultimate consumer.

Retailing is the extreme point of the business chain that links the customers and last middlemen in the business process. It 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.

Retail outlets exist in all shapes and sizes – from a "panwala" to a shoppers' Stop. However, most of these outlets are basic mom-and-pop stores – the "traditional "Kirana" shops in the locality, which are smaller than 500 sq.ft. area with very basic offerings, fixed prices, zero use of technology, and little or no ambiance. The number of outlets in India has increased from 0.25 million in 1950 to approximately 14 million today. This translates to a growth of 48 times over a certain period when the population has trebled.

Indian retail industry is generally divided into two categories: Small Retail and Organized Retail.

### Organized Retailing:

Organized Retailing refers to marketing activities undertaken by licensed retailers who are registered for sales tax, income tax and, whose business is corporate, who implement management techniques managed by professionals as a firm or limited company or cooperative. These include corporate-backed hypermarkets and retail chains, and also privately-owned large retail businesses. Hence, organized retail which now constitutes 8% of the total retail sector is growing at much faster pace of 45-50% per annum than small retail as per the findings of Indian Council for Research on International Economic Relations (ICRIER 2008).

### Unorganized Retailing:

Unorganized Retail refers to the traditional forms of low cost retailing like local Kirana Shops Owner Operated General Stores, Convenience Stores and Street Vendors, etc. According to the report of A. T. Kearny the Unorganized Retail sector is growing at about 10% per annum has risen from US\$ 309 billion in 2006-07 to US\$ 475 billion in 2011-12 which is approximately 92% of total retail market share (2012).

### OBJECTIVES OF STUDY

This research Paper is prepared for following objectives:

- To Check Growth & Development of Indian Retail Industry
- To Evolves the diversification of Indian Retail Industry

### DATA AND RESEARCH METHODOLOGY

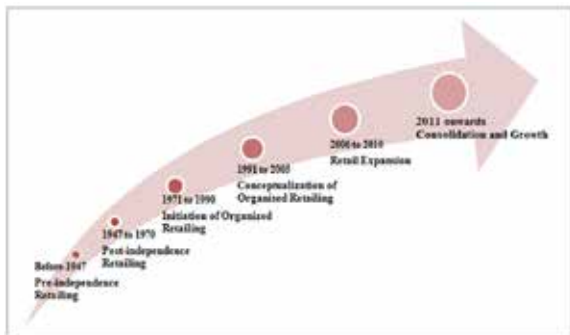
The descriptive research methodology has been used to collect the data. To evolves the Growth, Development & Diversification of Indian Retail Industry, secondary data has been collected from various published sources and websites.

### EVOLUTION OF DYNAMIC DIVERSIFICATION OF INDIAN RETAIL SECTOR

Retailing, one of the largest sectors in the global economy, is going through a transition phase in India. For a long time, the corner shops and stores were the only choice available to the consumer but this is slowly giving way to international formats of retailing. Traditional retail segment has seen the emergence of super markets, convenience stores etc. Growth of Indian retail sector can be divided in following phases:

**Pre-independence Retailing (Before-1947):** India started its retail journey since independence as haats, mandis and melas was the face of retail. Still they are continuing in most of the parts of our country and are essential part of life and trade.

PDS or Public Distribution System was started by British during the World War-II. It was started in 1939 in Bombay and subsequently extended to the other cities and towns. In 1947, 771 cities and towns were covered under this system.



**Post-independence Retailing (1947 to 1970):** Public Distribution System was close down after world war-II. But after independence, India was compelled to restart the PDS in 1950 in order to face the inflationary pressure in the economy. There was a rapid increase in Ration Shops (Fair Price Shops or FPSs). The Canteen Stores Department and the Post Offices in India were also covered under the network of outlets to reach to the population across the country. This time (1950) the country accounted for a mere 1.2 percent share of global GDP despite having over 14 percent of the world's population (CIA 2007).

The Khadi and Village Industries (KVIC) were also introduced post-independence in 1957. The co-operative movement was again advocated by government which set up Kendriya Bhandras in 1963. Today they operate more than 112 stores and 42 fair price shops across the country. But these movements were limited due to low purchasing power in the hands of consumers in 1950's to 1980's and government policies were in favor of small retailer.

**Indian's largest Retail Chains:**

PDS	4, 63,000
Post Office	1, 60,000
KVIC	7,000
CDS	3,400

(Source: Business World Marketing White Book, 2005, p238)

**Initiation of organized retailing (1971 to 1990):** The emergence of Organized Retail was made through Textile industry. One of the pioneers in this field was Raymond which set up retail fabric stores. Other textile manufacturers also set up their own showrooms like Reliance which set up Vimal showroom and Garden silk mill with Garder Vareli. Government initiatives were - Mother Dairy, Kendriya Bhandar, Super Bazaar, etc Foodworld, was the first national retail chain from the RPG Group in the Super Market segment.

The next wave of organized retail in India was in Branded readymade clothes like Mathura Garments, Arvind Mills etc. started up their showrooms to meet the demands of menswear.

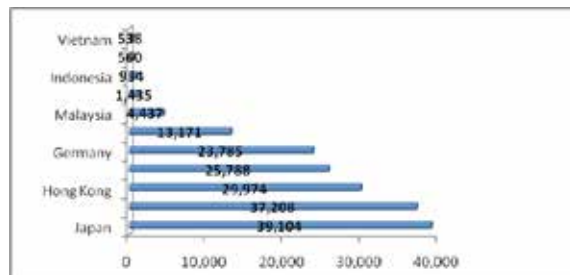
**Conceptualization (1991 to 2005):** With the success of branded menswear outlets, the new age departmental stores arrived in India. As several demographic changes took place in country with arrival of liberalization in the 1990s which were able to help retail fabric stores fabric industry to grow.

With growth in the range of GDP (6.6%), the income level increased and purchasing power came in the hands of people. At this time no specific restrictions imposed on the entry of foreign players in Indian retail market. The first generation of international brands to make an Indian entry during this phase included McDonald's, Benetton, Levi Strauss, VF Corporation, Adidas, Reebok and Nike, to name a few.

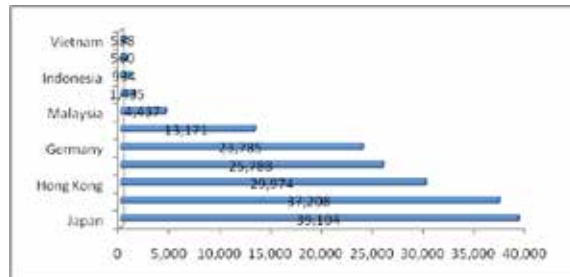
It was the time when (modern) mall culture was introduced in India. With the beginning of new era in Indian retail the economic level opened up and a new large middle class with spending power emerged and helped in shaping this sector. The large middle class markets demanded the value for their money product, a better shopping entertainment, more convenience and one stop shopping. All this pulled up the growth of departmental stores, super markets and other specialty stores.

Modern retail was started with the concept of retail as an entertainment. Now the development of modern retail is not seen only in metros but also in other part of country. With the retail boom, India is ranked as the most desirable market for global retailer to enter according to the Global Retail Development Index, 2005. Overall services accounted for 55% of India's GDP in 2005 putting it between China at 41% (excluding Hong Kong) and the United States at 79% (McKinsey May 2007).

**GDP Per Capita of various countries, 2005, \$ 2000**



**Services share of GDP, 2005**



Source: EIU, Viewshare, Global Insight; MGI India Consumer Demand Model, Mc Kinsey, 2007

**Retail Expansion (2006 to 2010):** This is perhaps the most active phase of the Indian retail industry in terms of growth, entry of new players and development of new formats. With virtually unlimited potential on desk, Reliance, Tata, Aditya Birla and Mahindra entered the bandwagon. Their success brought in global retailers such as Metro AG, Max Retail, Shoprite, Hypercity, etc and more recently Carrefour, Tesco and Zara that announced their India entry and are optimistic about their growth in this market. Bharti-Walmart is a noticeable JV that entered in this phase. During this phase, India's FDI policy in retail provides the following guidelines, as issued by the Department of Industrial Policy and Promotion (DIPP) in 2006:

1. FDI up to 100% is allowed for cash and carry wholesale trading and export trading under the automatic route.
2. FDI up to 51% with prior Government approval (FIPB)

route) for retail trade of Single Brand products, permitted from 2006 onwards.

3. FDI is not permitted for multi-brand retail in India.



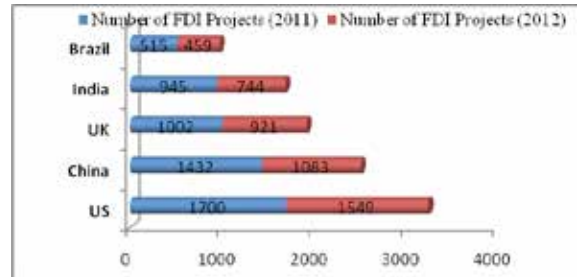
Source: Aranca Research

With the effect of FDI policy 2006, the Indian retail boom was on its peak and this phase was termed as “High Retail Gold Rush.” And India is still maintaining its first position as market with most opportunity for retail growth; India’s retail market grew to \$330.00 billion in 2006-07. In 2010, larger format convenience stores and supermarkets accounted for about four percent of the industry, and these were present only in large urban centers. At present India’s retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

**Consolidation and Growth (2011 onwards):** Until 2011, Indian Government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. However in November 2011, the government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well as single brand majors such as IKEA, Nike, and Apple. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus. In January 2012, the government approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer will source 30 percent of its goods from India. Indian government still continues the hold on retail reforms for multi-brand stores.

On 14 September 2012, government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. On 7 December 2012, the government allowed 51% FDI in multi-brand retail in India. Some states have allowed foreign supermarkets like Wal-Mart, Tesco and Carrefour to open while some are not.

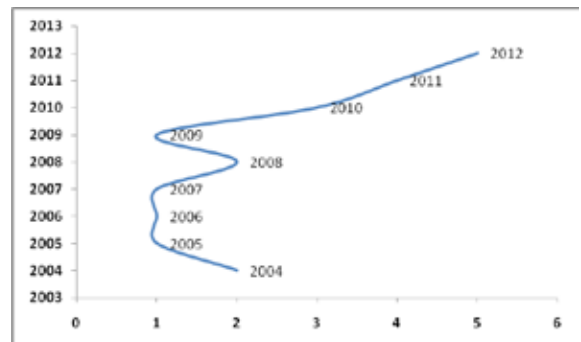
World Top Five FDI Destinations



Source: FDI Markets, from the Financial Times Ltd.

According to the Financial Times Ltd, India has become one of the world’s top five destinations for foreign direct investment in 2012. And more the 744 projects are established in 2012.

**CONCLUSION:** India has topped the A.T. Kearney’s annual Global Retail Development Index (GRDI) for the third consecutive year, maintaining its position as the most attractive market for retail investment. The Indian economy has registered a growth of 8% for 2007. The prediction for 2008 is 7.9%. But still there is a wide difference between the market share of small and large retail markets. Small retail market is still having 92% of market share as compare to large retail market. But growth has been very slow for them and no new kirana stores are opening up in neighborhoods where big retailers have opened shop. And big retailers will have to wait a long time to achieve this market share. Therefore both the malls and kirana stores can play simultaneously in India so no need get afraid due to the malls. And the countryside will be largely left untouched which will be served by local Kirana Stores. “Big retail chains won’t kill small shops”



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