

Retailing in India- an Overview of Growth and Challenges



Biology

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ABSTRACT

The Indian retail market has presently emerged as the most dynamic and fast paced industries and being propelled by the congenial market-environment, many of the national and international players are entering into retail market with their investments around the globe and particularly in India. It is estimated that India's retail market touches the figure of US \$ 1 trillion from US \$ 500 billion in 2013. The favorable demographic dividend, continuously increasing amount of disposable income, urbanization, emergence of economically improved middle class households and technology-driven shifts in consumer expenditure are the primarily driving the growth of retail markets in India.

Keeping the retail market-environment in India, relying primarily on secondary data and the observations of the research reports, the present paper deals with the Indian retail milieu in the light of Global Retail Development Index and focus has been laid on the opportunity snapshot of retail market in India. Rural markets, proportion of working age population, consumer behavior of high net worth households are the propelling factors for the growth of retail markets in India. Throwing light on the retail marketing mix, the present paper analyses the influencing factors of sales and revenue of the retail marketing and particularly deals with the challenges ahead for the retail marketing in India.

Introduction:

Retailing is defined as "any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution. The retail industry is becoming more complex and changing at an ever-increasing speed. The driving forces like Shifting demographics, household downsizing, more educated consumers, new channel formats etc., are forcing the retailing that the industry has to quickly adjust and modify existent models, approaches and processes to satisfy the needs of future customers in order to be successful and profitable. If retailing has to become an industry, it has to realize, more and more, that it must tailor its offerings to select customers, as opposed to the mass appeal approach of the 1980s, in order to win over customers and foster greater customer loyalty. Being influenced by the shopping experiences of the modern consumers, retailers are looking more globally for exploring new sources of revenue and they are stepping up efforts to be more eco-friendly by focusing on sustainable procurement and by opening "green stores" with low power lighting systems. As a result, according to the Global Retail Development- 2014, the retail sales has reached the level of US \$ 16.78 billion by 2013 as shown in Table.1

Table. 1. Growth in the Retail Sales around the Globe

Year	Global Retail Sales (US \$ billion)	YOY Growth (%)
2010	14.25	3.4
2011	15.84	3.1
2012	16.26	2.4
2013	16.78	2.1

Source: EIU (2013) World Consumer Goods and Retail Outlook – 2013.

The experts who have been debating on "India Retail: The Next Growth Story" have observed that in coming years, about 70.0 per cent of world's growth is likely to come from emerging markets with 40.0 per cent contribution from China and India alone. The driving forces behind this significant growth is that the focus of retailers is on building a portfolio of countries with different levels of risk, at different stages of maturity and with distinct consumer profiles to balance both short and long term

opportunities. Many large international retails are continuously increasing their presence particularly in emerging markets like India and they have been particularly driven by market-centric factors rather than efficiency-centric factors while choosing investment destinations.

The India Retail Milieu:

India was ranked 14th in 2013 on the Global Retail Development Index by A.T. Kearney highlighting it as one of the key foreign investment destinations world wide. The retail industry has been continuously supported by factors such as: improvement in demographics, rising disposable income levels, expansion of organized retail sector, changing consumer habits etc., Hence, it is argued that all these factors could provide a wide window of opportunities for national and international players in the next 5 to 10 years.

If we look at the opportunity snapshot, we come across the following opportunities for both national and international players:

- Rural markets constitute 70.0 per cent of the total population base, but account for only 40.0 per cent of the total consumption in India. The reason is that the penetration of organized retailing is minimum. The retail players are planning to explore these untapped markets and attempting to localize their products for this market.
- The Census-2011 estimated that the population in the working age group of 15 to 54 years accounted for more than 50.0 per cent and this proportion represent the largest spender on retail.
- It is estimated that there are 500 million individuals under the age of 25 and this young population is after technology-driven consumer goods, with more access to more money than before.
- India consists a large middle class of 75 million households or 300 million individuals. Their disposable income has been increasing significantly.
- The World Wealth Report -2013 exhibited that the total no. of millionaires with investible assets of more than US \$ 1 million, grew by 51.0 per cent, who spend lavishly on luxury products.

To be precise, the importance of retail sector has been growing in India due to the driving forces as shown in the following figure.1



Fig. 1: The Driving forces for the importance and growth of Retail Sector
Source: Omar, O. (1999), Retail Marketing, London: Financial Times / Pitman. Ch.1

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Besides these driving forces, the Indian retailers have been adopting the promotional strategies to decide the target market and then are selecting the appropriate combination of the 4Ps - Product, Price, Promotion and then Place as shown in the figure: 2



Fig. 2: Marketing strategy adopted by Retail Sector in India
Source: Kent, T. and Omar, O. (2003), Retailing, Basingstoke: Palgrave, Ch. 1 and 2

Being influenced by the driving forces cited in fig.1 and the marketing strategy adopted by retail sector in India cited in fig.2, the retailers are focusing on rural markets where roughly 70 per cent of the total population is living, to tap the potential and they are planning to localize their products for rural markets particularly with regard to price points, packaging, stock keeping and size etc.,. The youth population, who are techno-social in nature with their innovative ideas, consumer behavior and habits, are acting as the creators of demand for the retail products. It is estimated that India has 75 million households or 300 million individuals, who are categorized as middle income households and vested with the feature of increasing disposable incomes resulting into a substantial change in their spending habits, have been the prime force behind increasing the demand for the retail products. Again the geographic distribution of the retail sector has been expanding beyond metro cities and it is estimated that the top 10 markets consist of metro cities such as Mumbai, Delhi, Bengaluru and Hyderabad including leading tier-I cities such as Surat, Ahmadabad and Jaipur and the growth of sub-urban areas which are the key drivers of the organized retail segment. The phenomenal growth of e-commerce as a retail channel over the last few years, driven by increasing internet penetration, increased spread of broadband connections, increasing use of smart phones etc. has also contributing much to the growth of retail business in India. All these demand-increasing factors have resulted into significant growth in the market size of the retail industry in India as shown in Table. 2

Table. 2. Increasing Market size of the Retail Industry in India - 2013

Market Size		Retail Industry Break-up by Revenue		
Year	Retail Sales (in US \$ billion)	S. No.	Category	Proportion of sales (%)
2000	204	1	Food and Grocery	69 %
2002	235	2	Apparel	8 %
2004	278	3	Jewellery	6 %
2006	321	4	Consumer Durables & IT	6 %
2008	368	5	Pharmacy	2 %
2010	424	6	Furniture & Furnishing	2 %
2012	518	7	Footwear	1 %
		8	Others	6 %

Source: www.ibef.org (updated as on May 2015)

The data presented in Table. 2 reveals that the market size of the retail sector in India has increased to US \$ 518 billion in 2012 compared to 2000 which was US \$ 204 billion. The break up by revenue shows that food and grocery is the dominant category in retail sales followed by apparel, jewellery and consumer durables.

The retail market is expected to reach a whopping Rs. 47 lakh crore by 2016-17 and the Centre for Retail Research observed that by 2015, growth in retail sales would be 2.0 per cent which comprises 0.4 per cent growth rate in food sales and 3.4 per cent sales in non-food items. the following trends by 2016. Over the next five years, it is estimated that the India's retail market is expected to grow at 7 per cent reaching a size of US \$ 850 billion by 2020. The traditional retail is expected to grow at 5 per cent and reach a size of US \$ 650 billion (76 per cent) and the organized retail is expected to grow at 25 per cent and reach a size of US \$ 200 billion by 2020. The experts have identified the following driving forces for the future growth of the retail sector in India:

- The rise of e-commerce and m-commerce
- Fast growing luxury market.
- Key emerging categories for online purchase.
- Increasing acceptance of private labels.
- Increased FDI inflow into Retail Market.

Challenges Ahead:

Though the estimations revealed that India has a fast growing retail markets, I has been facing the following challenges:

- The demographics of the Indian consumer is highly diverse in nature.
- Lack of storage and transport logistics often leading to huge wastage.
- Escalating real estate prices and rentals in large cities due to increase in demand.
- Challenge of finding, training and retailing talent.
- Competition for unorganized sector.
- Multiple and complex taxation system.
- Stringent FDI regulations.

Conclusion:

The recent clarifications on FDI relaxation in multi-brand retailing provides a interesting dynamism to the landscape of India, in spite of the above cited challenges, several large international retailers are very much interested to invest in India to leverage the strong demand potential of the world's 5th largest consumer market. However, due to teething issues in the regulatory guidelines and operating environment, the desired level of investments are not received by the retail sector. For example in China the on-line market grew 42.0 percent in 2013 to \$ 305 billion, and e-commerce accounted for 8.0 percent of all retail. However,

in India, the retail is hindered by high current account deficits; government debts, and strict FDI policies that have long been an impediment to growth of retail sector. As a result, India dropped to 14th place in 2013. Hence, companies looking at investments in India should understand the need to tailor their business models and strategies after conducting detailed opportunity assessments.

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