



## Emerging trends in Indian Business Environment Organized retail sector

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### Introduction

#### Business Environment:

Meaning: - The term Business Environment is composed of two words 'Business' and 'Environment'. In simple terms, the state in which a person remains busy is known as Business. The word Business in its economic sense means human activities like production, extraction or purchase or sales of goods that are performed for earning profits.



On the other hand, the word 'Environment' refers to the aspects of surroundings. Therefore, Business Environment may be defined as a set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization. Business Environment has two components:

1. Internal Environment
2. External Environment

**Internal Environment:** It includes 5 M's i.e. man, material, money, machinery and management, usually within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise.

**External Environment:** Those factors which are beyond the control of business enterprise are included in external environment. These factors are: Government and Legal factors, Geo-Physical Factors, Political Factors, Socio-Cultural Factors, Demo-Graphical factors etc. It is of two Types:

1. Micro/Operating Environment
2. Macro/General Environment

#### RETAIL SECTOR:

The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retailing has entered into the Retail market in India as is observed in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer shopping,

entertainment and food all under one roof.

#### EMERGING TRENDS IN INDIAN RETAIL SECTOR:

The emerging trends in the Indian organized retail sector would help the economic growth in India. There is a fantastic rise in the Indian organized retail sector in a very short period of time between 2001 and 2006. Eventually, out of the shadows of the unorganized retail sector, India has a chance of tremendous economic growth, both in India and abroad.

The emerging trends in the Indian organized retail sector are also adding up to the development of the Indian organized retail sector. The relaxation by the government on regulatory controls on foreign direct investments has added to the process of the growth of the Indian organized retail sector.

**THE INFRASTRUCTURE OF THE RETAIL SECTOR** will evolve radically in the recent future. The emergence of shopping malls is increasing at a steady pace in the metros and there are further plans of expansion which would lead to 150 new ones coming up in India by 2008. As the count of super markets is going up much faster than rate of growth in retail sector, it is taking the lions share in food trade.

**THE GROWTH OF THE INDIAN ORGANIZED RETAIL SECTOR** is anticipated to be heavier than the growth of the gross domestic product. Alterations in people's life-style, growth in income levels, and encouraging conventions of demography are proving favorable for the new emerging trends in the Indian organized retail sector.

The success of this retail sector would also lie in the degree of penetration into the lower income strata to tap the possible customers in the lowest levels of society. The demands of the buyers would also be enhanced by more access to credit facilities.

With the arrival of the Transnational Companies (TNC), the Indian retail sector will undergo a transformation. At present the Foreign Direct Investments (FDI) is not encouraged in the Indian organized retail sector but once the TNC'S get in they inevitably try to oust their Indian counterparts. This would be challenging to the retail sector in India.

#### GROWTH OF RETAIL COMPANIES IN INDIA

Growth of Retail Companies in India exhibits the boom in the **retail industry in India** over the years. The increase in the purchasing power of the Indian middle classes and the influx of the foreign investments has been encouraging in the Growth of Retail Companies in India.

Growth of Retail Companies in India is still not yet in a matured stage with great potentials within this sector still to be explored. Apart from the retail company like Nilgiri's of Bangalore, most of the retail companies are sections of other industries that have stepped in the retail sector for a better business. The Growth of Retail Companies in India is most pronounced in the metro cities of India; however the smaller

towns are also not lagging behind in this. The retail companies are not only targeting the four metros in India but also is considering the second graded upcoming cities like Ahmedabad, Baroda, Chandigarh, Coimbatore, Cochin, Ludhiana, Pune, Trivandrum, Simla, Gurgaon, and others. The South Indian zone have adopted the process of **shopping in the super-markets** for their daily requirements and this has also been influencing other cities as well where many **hypermarkets** are coming up day to day.

#### REASONS FOR THE FAST GROWTH OF RETAIL COMPANIES IN INDIA:

The retail companies are found to be rising in India at a remarkable speed with the years and this has brought a revolutionary change in the shopping attitude of the Indian customers. The Growth of Retail Companies in India is facilitated by certain factors like -

- existing Indian middle classes with an increased purchasing power
- rise of upcoming business sectors like the IT and engineering firms
- change in the taste and attitude of the Indians
- effect of globalization
- heavy influx of FDI in the retail sectors in India

#### INDUSTRY EVOLUTION

- Traditionally retailing in India can be traced to
- Era of government support for rural retail: Indigenous franchise model of store chains run by Khadi & Village Industries Commission
- 1980s experienced slow change as India began to open up economy.
- Textiles sector with companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim first saw the emergence of retail chains
- Later Titan successfully created an organized retailing concept and established a series of showrooms for its premium watches
- The latter half of the 1990s saw a fresh wave of entrants with a shift from Manufactures to Pure Retailers.
- For e.g. Food World, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword and Fountainhead in books.
- Post 1995 onwards saw an emergence of shopping centers
- Mainly in urban areas, with facilities like car parking
- Targeted to provide a complete destination experience for all segments of society
- Expanding target consumer segment: The Sachet revolution - example of reaching to the bottom of the pyramid.

#### OPPORTUNITIES AND CHALLENGES:

The organised 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 organised 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
- Competition from the unorganized sector
- Retail sector has no recognition as an industry
- High real-estate costs
- Lack of basic infrastructure
- Supply-chain inefficiencies
- Challenges with respect to human resources
- Margin Pressure

#### Global economic slowdown impacting consumer demand

The current contraction in overall growth has not been so severe ever since the one witnessed during World War II. The sub prime-triggered crisis in the US during end of 2007 gradually spread across other parts of the world; as a the fallout of this crisis, credit availability dropped sharply in advanced economies and their GDP growth contracted incessantly dur-

ing the last quarter of 2008. The financial crisis continued to trouble advanced and developing economies in spite of policymakers' attempts to replenish liquidity in these markets. Many financial institutions collapsed and filed for bankruptcy, as the situation got from bad to worse. Many banks/institutions made massive write-downs following this turn of events.. Already these write-downs are turning into a major challenge for banks/financial institutions because of solvency issues, and deepening risk of failure of banks/ financial institutions. Failure of the US investment bank Lehman Brothers, for instance, has had an enormous impact on the overall global financial system, and has consequently shaken the confidence of banks, investors, households etc.

The financial crisis and global economic slowdown resulted in job losses around the world, which weakened consumer demand.

#### Consumption declines in the advanced economies

Private consumption expenditure is an important indicator of overall economic growth. In the last couple of quarters, the decline in consumption has further affected the global economic downturn. Moreover, widespread financial crisis severely hit credit availability and household disposable income. The consumer demand situation was aggravated further by reduced capital availability and consequent fall in investments.

#### RETAIL SECTOR YET TO BE RECOGNISED AS AN INDUSTRY:

The retail sector is not recognized as an industry by the government even though it is the second-largest employer after agriculture. Lack of recognition as an industry affects the retail sector in the following ways:

- Due to the lack of established lending norms and consequent delay in financing activity, the existing and new players have lesser access to credit, which affects their growth and expansion plans
- The absence of a single nodal agency leads to chaos, as retailers have to oblige to multiple authorities to get clearances and for regular operations

#### HIGH REAL ESTATE COSTS:

Even though the real estate prices have subsided recently due to the slowdown in economies and the financial crises, these prices are expected to go up again in the near future. Presently the sector faces high stamp duties, pro-tenancy acts, the rigid Urban Land Ceiling Act and the Rent Control Act and time-consuming legal processes, which causes delays in opening stores.

Earlier on the lease or rents on properties were very high (among the highest in the world) at some prominent locations in major cities. The profitability of retail companies were affected severely because real estate costs constituted a major part of their operating expenses. Now companies are moving out from prominent malls of tier I cities and are re-negotiating the rental agreements with landlords to reduce costs. Some are even focusing on setting up shops in tier II and tier III cities.

#### LACK OF BASIC INFRASTRUCTURE:

Poor roads and lack of cold chain infrastructure hampers the development of food retail in India. The existing players have to invest substantial amounts of money and time in building a cold-chain network.

#### SUPPLY-CHAIN INEFFICIENCIES:

Supply chain needs to be efficiently-managed because it has a direct impact on the company's bottom lines. Presently the Indian organized retail has an efficient supply chain but it appears efficient only when compared with the unorganized sector. On an international level the Indian organised retailers fall short of international retailers like Wal-Mart and Carrefour in terms of efficiencies in supply chain. In the following paragraphs some key challenges that the retailers face during procuring goods from suppliers to delivering the same to end-customers are discussed.

The First challenge that retailer's face at the local store level as well as at the warehouse level. Excess inventory often leads to an increase in inventory costs, and then to lower profits, so retailers like Pantaloons and Shoppers Stop have IT systems in place for inventory management. However, the retailer may still face a big challenge in terms of efficiently implementing the supply-chain software across stores and integrating it with the central warehouse, which can be a time-consuming process, requiring trained personnel.

Logistics is the Second challenge related to the supply chain. It is imperative for any organised food and grocery retailer to establish a robust cold chain. Amul is the best example of this scenario, as it has developed a cold storage chain across India.

The Third challenge related to the supply chain is procurement. Big organized retailers enjoy economies of scale based on their size and expansion plans. The economical benefits of scale in procurement are achieved when procurement is made in thousands or millions of units; however, the main challenge here is to procure adequate amount of stock according to customer requirements, failing which the resultant rise in inventory can affect bottom lines.

#### **CHALLENGES WITH RESPECT TO HUMAN RESOURCES:**

The Indian organized retail players shell out more than 7% of sales towards personnel costs. The high HR costs are essentially the costs incurred on training employees as there is a severe scarcity for skilled lab our in India. The retail industry faces attrition rates as high as 50%, which is high when

compared to other sectors also. Changes in career path, employee benefits offered by competitors of similar industries, flexible and better working hours and conditions contribute to the high attrition.

#### **Shrinkage**

Retail shrinkage is the difference between the book value of stock and the actual stock or the unaccounted loss of retail goods. These losses include theft by employees, administrative errors, shoplifting by customers or vendor fraud. According to industry estimates, nearly 3-4% of the Indian chain's turnover is lost on account of shrinkage. The organized industry players have invested IT, CCTV and antennas to overcome the problem of shrinkage.

#### **CONCLUSION:**

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

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