



The Organized Retail Market – Indian Perspective

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ABSTRACT

The Indian retail industry is generally divided into organized and unorganized retailing. Organized retailing refers to trading activities undertaken by licensed retailers those who have registered for sales tax, income tax etc. Include corporate –backed hypermarkets and retail chain and also privately owned chain of retail business in a large entity. Organized retail is a new phenomenon in India and despite the current downturn in the market; This paper has made an attempt to view the organized retail sector in India with its evolution, identify the factors promoting for organized retailers, the advent of foreign retailers, and to know the booming sector in organized retail and to pin point the challenges faced by the organized retail sector in India. As more and more organized retail outlets are dotting the Indian topography, competition is no more restricted between organized and unorganized retailing.

Keywords : Organized, Retail, Promoting, challenges, Market, India.

Introduction:

The Indian retail market is estimated to exceed US\$ 750 billion by 2015, according to the India Retail Report 2013 (IRIS Research), presenting a strong potential for foreign retailers planning to enter India. According to A T Kearney's Global Retail Development Index (GRDI) 2012, India is the fifth most favorable destination for international retailers of the total Indian retail market 8% is made up by the organized retail segment. This segment is estimated to grow at a rate of almost 30% by 2015. This organized retail segment in India is expected to account for 20 percent of the overall retail market by 2020, according to the Global retail Index report.

Until 2011, the Indian Central Government denied Foreign Direct Investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or other retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In late 2012, the Government of India passed a Foreign Direct Investment policy which allows foreign retailers to own up to 51 per cent in multi-brand retail and 100% in single brand retail.

The Indian retail industry is generally divided into organized and unorganized retailing:

- Organized retailing
- Unorganized retailing

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Evolution of the Indian Retail Market:

Retailing goes back to centuries; it started as a very primi-

tive business but today has grown tremendously. First people were doing businesses with their neighbors. Goods were exchanged between them. Gradually people began to collect themselves to a given neighborhood, which provides a geographical place to do the exchange. This not only increases the exposure of a given good but also helps a lot towards the development of a more formalized system. Gradually, a few more start to get together to a place that in turn creates a need for a common place. Later this common place was called a fair. With the passing of time the number of people doing businesses in a given fair increased, issues like security, transportation becomes a matter of concern. This semi-formalized system then gave birth to small-scale groceries, where people start to provide more combinations in their own neighborhoods. Then came the issue of choice in given grocery, the choices the customer had was limited, this was the beginning of the concept of "everything under one roof". As time passes, joint family changes into nuclear family. There too both members started earning which resulted into a new way of lifestyle. Retail has become largest source of employment and has deep penetration into rural India. Retail sector is one of India's fastest growing sectors with a 5% compounded annual growth rate. The organized retail industry in India had not evolved till the early 1990s. Until then the industry was dominated by the unorganized sector. It was a seller's market with a limited number of brands and little choice available to customers. Lack of trained manpower, tax laws and government regulations, consumer awareness and restrictions over entry of foreign player delayed the growth of organized retailing. Now the number of organized retail stores is gradually increasing. Retailing can be categorized as of different sectors like food and groceries, clothing and textiles, consumer durables, footwear, furniture and furnishing, catering services, jeweler and watches, books, music and gifts, mobile handsets and others.

Another report by Booz & Co and RAI expects that the overall Indian retail sector would grow 9 per cent in 2012-16, with

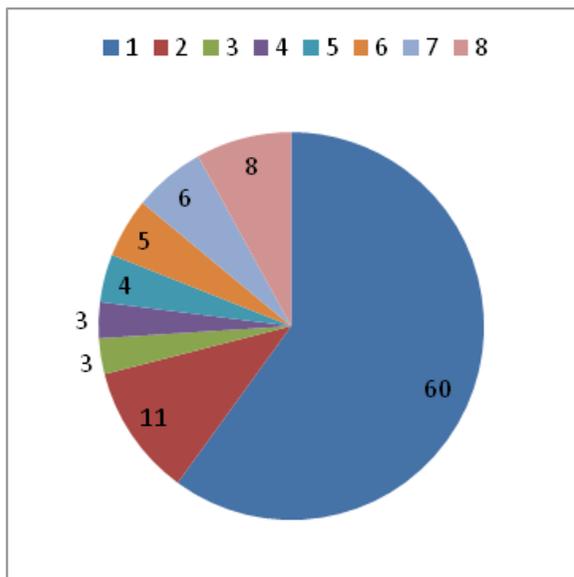
organized retail growing at 24 per cent or three times the pace of traditional retail (which is expected to expand at 8 per cent).

Deloitte also seconds this forecast and expects that organized retail, which constitutes 8 per cent of the total retail market, will gain a higher share in the growing pie of the retail market in India.

Future prospects pose a tremendous growth opportunity for retail players- domestic as well as foreign. The consumer behavior is also experiencing a transition due to upcoming western concepts like online shopping and direct selling.

Chart: 1

Title: Indian Retail Sector: An Overview



Source: India Retail Report 2013.

Chart: 1 indicates the following sector percentage in organized retail industry.

- 60% Food & Grocery
- 11% Apparels
- 3% Mobile and telecom
- 3% Food service
- 4% Jewellery
- 5% Consumer Electronics
- 6% Pharmacy
- 8% Others

Following are the key factors driving growth in retail industry:

- Growing middle class income,
- Improving demand from rural markets,
- Young demographic profile
- Increasing consumer aspirations,
- Housing boom,
- Rising incomes and improvements in infrastructure.
- Other factors are
 - Increase in per capita income,
 - Liberalization of the Indian economy and the advent of double income families.
 - Consumer preferences are also improving and they are becoming quality conscious and shifting their purchase behaviour from the traditional retail stores to malls.

Advent of Foreign retailers in India:

Recently many global players like Amazon are taking advantage of online retailing and hence are targeting Indian consumer by setting up relationship with supply chain companies to deliver products to end customer therefore bypassing the need to create physical retail stores. To attract Indian con-

sumer to buy their products online, Crate and Barrel has launched India specific website. To target Indian consumer, identical efforts are expected by other leading global retailing giants leveraging on 3G and smart phone apps, spread on internet, and social networking.

As retailing still is a very local industry (over 90%), the FDI in multi-brand retailing will only benefit existing organized players in terms of attracting foreign capital and will not change considerably the retail landscape in terms of formats proliferations - benefiting customers, generating huge employment or investment in supply chain or back end investment as has been envisaged in the policy. It is expected that many Trans-national retailers will use online route or e-commerce to attract Indian consumer to start with before setting up physical presence to test the market.

Organized retail is a new phenomenon in India and despite the current downturn in the market, the great Indian bazaar report says that the market is growing exponentially as economic growth lifts more of Indian people into the consuming classes and organized retail lures more and more exciting shoppers into the open doors. By 2015 more than 300 million shoppers are likely to patronize organized retail chains (60 millions currently do) accounting for anywhere between 14% and 18% of the total retail business. It's estimated that by 2030, 91 million households will be middle class, up from 21 million today.

Figure: 1

Title: Retail Chain

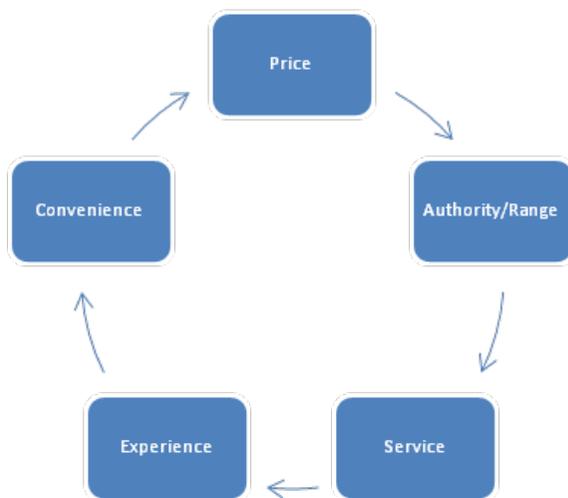


Figure: 1 shows the retail chain of activities.

Challenges faced by Organized Retail Sector in India:

Although the Organized Retail market does offer a vast untapped potential, it should also be recognized that it is not that easy to operate in Retail market because of several problems.

Retailers need to address the challenges to become successful on long term.

1. The organized retail sector in India is still at a developmental stage, characterized by a very small number of players trying to create a new paradigm. To become a flourishing industry, the Indian retail sector has to attract leading Indian and foreign players to make substantial investments.
2. Technology is one of the major challenges faced by organized retailers for efficient management.
3. Shortage of skilled workforce in retail sector.
4. Retail shrinkage is also one of the major challenges. Retail shrinkage is the difference in the value of stock as

per the books and the actual stock available in the shop. The causes of retail shrinkage are mainly employee theft, shoplifting, administrative errors and vendor fraud. Effective online monitoring system need to be implemented.

5. Understanding customers in terms of customer behavior and loyalty is a difficult job. Retailers need to implement effective customer relation management and loyalty program.
6. Distribution is an integral part of any retail organization. Delivering the right goods to the right place at the right time is main task of distribution. Retail majors are under serious pressure to improve their supply chain systems and distribution channels and reach the levels of quality and service desired by customers. The lack of proper infrastructure and distribution channels in the country results in inefficient processes.
7. Organized retail outlets use very large volumes of electricity for a variety of applications from lighting, air conditioning, escalators, cold storing, billing systems, lifts etc. As a result of insufficient and inefficient power supply, a huge amount of private investment goes into ensuring power backups. This makes it very difficult for organized retail to grow.
8. The retailers in India are paying very high cost for real estate. This increases the maintenance cost and reduce profit margins.
9. Competition from unorganized sector is another challenge facing the organized retail industry in India.
10. As more and more organized retail outlets are dotting the Indian topography, competition is no more restricted between organized and unorganized retailing. It is now quite evident between organized retailers as well. Efficient and effective Loyalty programs, home delivery of goods, customer retention strategies, offers, discounts etc are the order of the day.

Conclusion:

India is being seen as a potential goldmine. It has been ranked 2nd in Global Retail Development Index of 30 developing countries drawn up by A. T. Kearney. Government of India has also opened the door for the retailing giants to enter into the markets. Many foreign investors are also showing keen interest to enter into the Indian market. If FDI in retail sector sees the light of the day it will see many changes in the coming years. As more and more organized retail outlets are dotting the Indian topography, competition is no more restricted between organized and unorganized retailing. Thus Indian market has vast untapped potential opportunity for more marketers in the forthcoming years.

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