



Empirical Studies of Retail Industries in India

Dr. Jayant Chavda

**Smt. R.D. Gardi Department of Business Management,
Saurashtra University, Rajkot**

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 industry's 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

Retail Industry, Awareness and brand consciousness, Retail markets

INTRODUCTION

The Indian Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. 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.

A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector are going to be the key factors in the growth of the organized Retail sector in India. The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the India Retail Industry.

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. Indian retail is expected to grow 25 per cent annually. Modern retail in India could be worth US\$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US\$ 16.7 billion business, growing at over 20 per cent per year. The future of the India Retail Industry looks promising with the growing of the market, with the government policies becoming more favorable and the emerging technologies facilitating operations.

THE INDIAN RETAIL SCENE

India is the country having the most unorganized retail market. Traditionally it is a family's livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99% retailer's function in less than 500 square feet of shopping space. Global retail consultants KSA

Technopak have estimated that organized retailing in India is expected to touch Rs 35,000 crore in the year 2005-06. The Indian retail sector is estimated at around Rs 900,000 crore, of which the organized sector accounts for a mere 2 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer.

Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention to the brand building process. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself. In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy.

STRATEGIES, TRENDS AND OPPORTUNITIES 2011

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 centres, 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 workingwomen population and emerging opportunities in the services sector are going to be the key growth drivers of the organized retail sector in India.

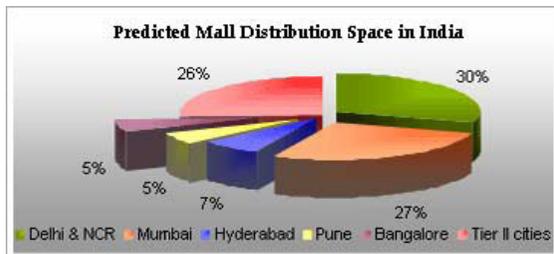
GROWTH OF RETAIL SECTOR IN INDIA

Retail and real estate are the two booming sectors of India in the present times. And if industry experts are to be believed, the prospects of both the sectors are mutually dependent on each other. Retail, one of India's largest industries, has presently emerged as one of the most dynamic and fast

paced industries of our times with several players entering the market. Accounting for over 10 per cent of the country's GDP and around eight per cent of the employment retailing in India is gradually inching its way toward becoming the next boom industry.

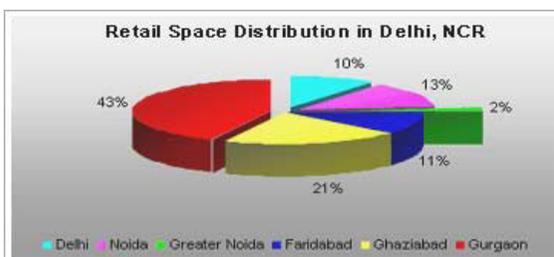
As the contemporary retail sector in India is reflected in sprawling shopping centers, multiplex-malls and huge complexes offer shopping, entertainment and food all under one roof, the concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. This has also contributed to large-scale investments in the real estate sector with major national and global players investing in developing the infrastructure and construction of the retailing business. The trends that are driving the growth of the retail sector in India are

- Low share of organized retailing
- Falling real estate prices
- Increase in disposable income and customer aspiration
- Increase in expenditure for luxury items (CHART)



Another credible factor in the prospects of the retail sector in India is the increase in the young working population. In India, hefty pay packets, nuclear families in urban areas, along with increasing working-women population and emerging opportunities in the services sector. These key factors have been the growth drivers of the organized retail sector in India which now boast of retailing almost all the preferences of life - Apparel & Accessories, Appliances, Electronics, Cosmetics and Toiletries, Home & Office Products, Travel and Leisure and many more. With this the retail sector in India is witnessing rejuvenation as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores.

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.



India is being seen as a potential goldmine for retail investors from over the world and latest research has rated India as the top destination for retailers for an attractive emerging retail market. India's vast middle class and its almost untapped retail industry are key attractions for

global retail giants wanting to enter newer markets. Even though India has well over 5 million retail outlets, the country sorely lacks anything that can resemble a retailing industry in the modern sense of the term. This presents international retailing specialists with a great opportunity. The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles, burgeoning income and favorable demographic outline.

INDUSTRY EVOLUTION

- Traditionally retailing in India can be traced to
- The emergence of the neighborhood Kirana stores catering to the convenience of the consumers
- 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
- Emergence of hyper and super markets trying to provide customer with 3 V's - Value, Variety and Volume
- Expanding target consumer segment: The Sachet revolution - example of reaching to the bottom of the pyramid.
- At year end of 2000 the size of the Indian organized retail industry is estimated at Rs. 13,000 crore

RETAILING FORMAT IN INDIA

Malls:

The largest form of organized retailing today. Located mainly in metro cities, in proximity to urban outskirts. Ranges from 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Piramyd, and Pantaloon. Stores:

Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors

Discount Stores:

As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non-perishable goods.

Department Stores:

Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. Further classified into localized departments such as clothing, toys, home, groceries, etc. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India and even has its own in store brand for clothes called Stop.

Hyper marts/Supermarkets:

Large self-service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified in to mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from 3,500 sq ft to 5,000 sq ft. having a strong focus on food & grocery and personal sales.

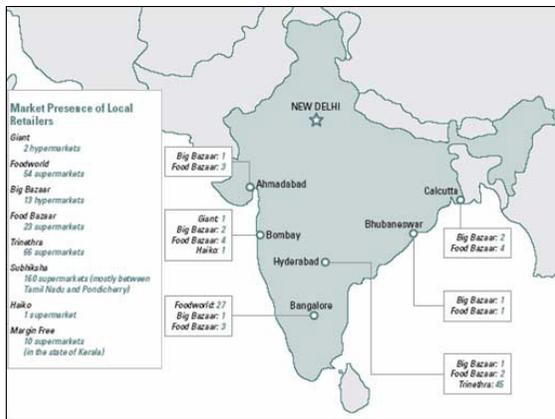
Convenience Stores:

These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium

MBOs:

Multi Brand outlets, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros.

INDIA'S NUMBER OF DOMESTIC GROCERY CHAINS AND EARLY FOREIGN ENTRANTS

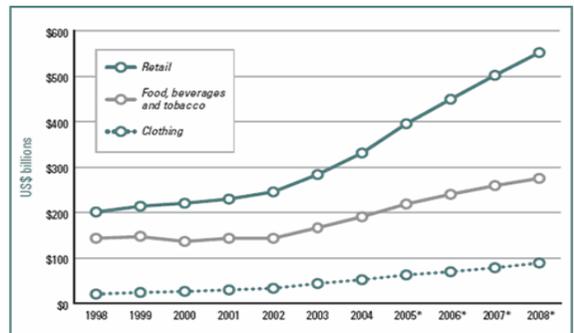


RECENT TRENDS

- Retailing in India is witnessing a huge revamping exercise as can be seen in the graph
- India is rated the fifth most attractive emerging retail market: a potential goldmine.
- Estimated to be US\$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 percent or US\$ 6.4 billion
- As per a report by KPMG the annual growth of department stores is estimated at 24%
- Ranked second in a Global Retail Development Index of 30 developing countries drawn up by AT Kearney.
- Multiple drivers leading to a consumption boom:
 - o Favorable demographics
 - o Growth in income
 - o Increasing population of women
 - o Raising aspirations: Value added goods sales
- Food and apparel retailing key drivers of growth
- Organized retailing in India has been largely an urban
- Phenomenon with affluent classes and growing number of double-income households.
- More successful in cities in the south and west of India. Reasons range from differences in consumer buying behavior to cost of real estate and taxation laws.
- Rural markets emerging as a huge opportunity for retailers reflected in the share of the rural market across most categories of consumption
 - o ITC is experimenting with retailing through its e-Choupal and Choupal Sagar i½ rural hypermarkets.
 - o HLL is using its Project Shakti initiative i½ leveraging women self-help groups i½ to explore the rural market.

o Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets.

RETAIL SALES IN INDIA



Sources: Economist Intelligence Unit and A.T. Kearney analysis *Data for 2005-2008 is based on estimates

CHALLENGES & OPPORTUNITIES

Retailing has seen such a transformation over the past decade that its very definition has undergone a sea change. No longer can a manufacturer rely on sales to take place by ensuring mere availability of his product. Today, retailing is about so much more than mere merchandising. It's about casting customers in a story, reflecting their desires and aspirations, and forging long-lasting relationships. As the Indian consumer evolves they expects more and more at each and every time when they steps into a store. Retail today has changed from selling a product or a service to selling a hope, an aspiration and above all an experience that a consumer would like to repeat.

For manufacturers and service providers the emerging opportunities in urban markets seem to lie in capturing and delivering better value to the customers through retail. For instance, in Chennai CavinKare's LimeLite, Marico's Kaya Skin Clinic and Apollo Hospital's Apollo Pharmacies are examples, to name a few, where manufacturers/service providers combine their own manufactured products and services with those of others to generate value hitherto unknown. The last mile connect seems to be increasingly lively and experiential. Also, manufacturers and service providers face an exploding rural market yet only marginally tapped due to difficulties in rural retailing. Only innovative concepts and models may survive the test of time and investments.

Retailing in India is currently estimated to be a US\$ 200 billion industry, of which organized retailing makes up a paltry 3 percent or US\$ 6.4 billion. By 2010, organized retail is projected to reach US\$ 23 billion. For retail industry in India, things have never looked better and brighter. Challenges to the manufacturers and service providers would abound when market power shifts to organized retail.

India has been topping the AT Kearney's annual Global Retail Development Index (GRDI) for three consecutive years, thus presenting itself as an attractive market for retail investment. The sector is witnessing inflow of large domestic conglomerates, like Reliance, Bharti, AV Birla Group; and international conglomerates such as Wal-Mart, Marks & Spencer etc. In addition, large investment announcements have been made both in the front as well as back-end operations of the industry. For instance Reliance industry has earmarked Rs. 25,000 crore for investment into retail foray.(Source: Insightory.com) About 35% to 40% of this would be spent in the rural retail - mainly dealing with logistics supporting urban retail.1 But to reach the penetration of about 10% by 2011 the amount of investment required would be 52 billion according to Technopak advisors.



The Indian retail market is the fifth largest retail destination globally. According to leading industry estimates, the Indian retail is estimated to grow from the US\$ 412 billion in 2008 to US\$ 483 billion by 2010 and \$860 billion by 2018. (Source: Technopak Advisers)

IMPORTANCE OF SUPPLY CHAIN IN RETAIL

With this growth in retail, not only front end but the entire network of activities leading to a culmination of a successful retail transaction has undergone a significant development. Supply Chain is no different. In the course of this retail evolution in India, the supply chain has also seen significant activity. After all, Supply chain forms a major part of the sustenance of any retail venture. For the retail venture to flourish successfully, it should have an efficient and well established supply chain. In the modern format, when all the other aspects of retailing have been discarded as being a differentiating factor, the role of supply chain has become even more important. Importance of an efficient supply chain for a retail chain may be assessed from the gamut of areas in which it helps the chain such as sourcing of material for Private Label, supplying of SKUs to the distant tier II and III cities, more and more retailers entering into Food & Grocery segment resulting in need for transportation of perishable items requiring cold supply chain, etc. hence it is deemed that from being just a part of the operations of a network, supply chain is soon going to become the source of competitive advantage for some firms.

If we look at the global scenario, we already have the example of retail mammoth, Wal-Mart. Wal-Mart is said to have the best supply chain which enables it to pursue the EDLP (Every Day Low Pricing) strategy. The Indian retail is yet to reach that stage and it will be an amalgamation of huge investments, government policies, third party intermediation, and fast changing consumer preferences which will characterize this back end revolution.

The key opportunities for investment in a retail supply chain lie in the areas of sourcing, distribution centres (warehouse, cold storage), transportation networks, inventory (both store level and warehouse), supply chain information systems such as warehouse management systems, planning, forecasting, inventory management, etc. different retailers have chosen a different combination of activities that they perform themselves while some activities are being outsourced to 3PLs (Third Party Logistics). On one hand a retail chain like Subhiksha has outsourced most of its back end work; on the other hand some like Reliance are investing heavily in the supply chain network to go for backward integration of their businesses. Some like Vishal Megamart and Pantaloons are excessively into selling of their in-house brands in their stores and have, hence, included manufacturing in their supply chain as well.

INDIAN VS. INTERNATIONAL RETAIL SUPPLY CHAINS

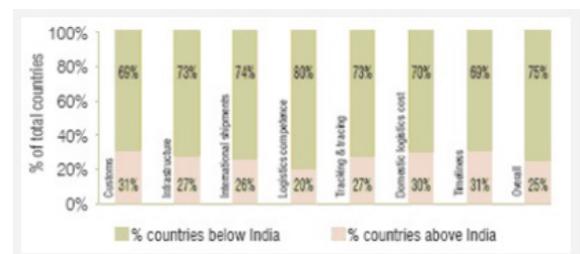
The Indian retail has just started to develop. This is in contrast to the major international retailing countries where it has already reached the maturity stage. Due to this, there are still a lot many wrinkles which need to be smoothed out. The Indian retail is still not as effective as that in the global markets with the inventory turns being lower and stock outs being higher than global average.

ORGANIZED RETAIL SCM IN INDIA

With respect to supply chain, the various factors which organized retail impact can be summarized as:

Outlook towards Retail SCM: While the organized retail is expected to boom, the supply chain will take more time to develop at the same rate because of a general lack of SCM professionals in the country with even fewer having any experience in the retail sector. Even amongst them, the level of process expertise and best practice skills are low. These factors may prove to be a “comma” but not a “full-stop”. However, with the growth of organized retail and with the increasing number of professional courses offered towards supply chain management and retail; number of SCM professionals are gradually focusing more towards a scientific methodology in dealing with the back end supply chain.

Infrastructure woes: The infrastructure in India is not as well developed as in other countries. Many parts of India still do not have roads and need to be delivered through bullock carts. Hence, any SC strategy for rural retail and tier II and III retail would need to take all these indigenous Indian factors into account. Below is a snapshot of how India fares vis-à-vis other countries.



Use of 3PL: Gap between the expectations and the actual level of services provided, and prices charged by the 3PLs are primary reasons why more companies are not looking towards outsourcing their logistics to 3PLs. Furthermore, the current service levels of the 3PLs leave a lot to be desired. Hence, a mature company in this field will go a long way towards success.

Impact of VAT: The industry was eagerly awaiting an act from the government to simplify the VAT assessment process across the different states. This VAT system has been recently introduced and not yet implemented to its full impact. When fully implemented, it would have long lasting consequences on the way the supply chain is being developed. The current form of VAT encourages retail trade within a single state, with significant implications on the location of warehouse and accordingly transportation costs.

Supply base: Due to the fragmented nature of supply chain in India, the players have to deal with a wide number of other players. This results in lower margins per level for the same amount of good being transacted. Furthermore, additional levels in the supply chain also result in increased overall wastage for the chain as the number of points, at which wastage may take place, increase as well.

THE WAY FORWARD



A typical supply chain looks like as shown above. In a supply chain, the role of retailer may vary. It may decide on only retailing and outsource everything else to a 3PLs or it may decide to carry out one or more of the activities, prior to its stage, itself and aim for backward integration.

In the near future there are several steps that any retailer would have to take to ensure an effective supply chain for their business to grow such as:

IT implementation to ensure that only as much is ordered as

is required and not to store the inventory in the warehouses. The production should be accordingly scheduled to meet the customer demand.

There should be sufficient mechanism to link all the different segments of the chain with each other and responsive to the demands of the segments.

Parts of the value chain may be outsourced to a 3PL while a retailer can also look into backward integration for critical areas.

Since the supply chain is at an advanced level in the developed nations, they have tried and tested various formats and then crystallised on certain set of options. Hence, in this case in particulars, Indian retailers need to look at the global retailers and adopt their best practices to suit Indian requirements.

On a long term basis, there would be a need to build a flexible supply chain which would be capable of responding to changes, intrinsic or extrinsic changes, drastic or slow changes, in demand, supply and technology. Further, such flexible supply chains would allow retailers to accommodate the ill-effects of any dramatic events like natural calamities, terrorism, etc

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 India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. 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.