

MODERN RETAILING IN INDIA - OPPORTUNITIES AND CHALLENGES

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ABSTRACT

Indian retailing is undergoing a process of evolution and is poised to undergo rapid transformation. The Indian retail industry which was traditionally dominated by small by small mom & pop stores i.e kirana stores, seems to have finally come to an age. At present India is on the threshold of a great era in retailing which has brought many changes and also opened door for many domestic as well as foreign players. Historically rural reach was through weekly markets i.e haats, jhatras, melas, village fairs, which is also the source of entertainment. Another traditional retail reach is through convenience stores also known as mom & pop stores, is a key element in the retail in India due to consumers unwillingness to go long distance for purchasing daily needs. The Indian retail, which was dominated by small entrepreneurs, i.e family members kirana stores, seems to have finally come to age. The traditional grocery stores have EMBRACED the modern retail formats. Modern formats such a discount stores, hyper market, supermarket, department stores, specialty stores, convenience stores, warehouse retailers have emerged. The emergence of new formats and the evolution of modern retail in India have attracted the attention of the aspiring class. The young consumers are looking for shopping experience and now value convenience and choice on a par with getting value for their money. Many retailers are attempting to serve the latent needs of the "new" aspiring Indian consumers. Retailing is an important segment of any economy, both in relation to GDP contribution and share in total employment. The opportunities and scope for more employment in retailing sector can't be ACCENTUATED. Sales from large format stores are to be expanding at growth rates ranging from 24 percent to 49 percent per year during 2003-08 according to a latest report of Euromonitor International, a leading provider of global consumer - market intelligence. Currently, retailing is a new concept for the Indian market and is largely disorganized. Only 3 percent of total retailing sector comes under organized retailing. As per the

Technopak consultants the retail industry is expected to sink all of \$ 36 billion into various formats by 2013, this would result in an industry with an estimated total of \$ 100 billion by 2014. The retail sector is highly fragmented and has the highest retail density in the world. This paper will discuss the challenges like FDI in retail sector, real estate, manpower planning, supply chain in modern retailing in India.

Key words: FDI in retail, real estate, manpower planning, supply chain.

INTRODUCTION:

Retail is India's largest industry, accounting for over 10 percent of country's GDP and around 8 percent of employment. After 50 years of traditional retail i.e unorganized retail and fragmented mom and pop stores (kirana) stores, the Indian retail industry has finally began to move towards modernization, systemization and consolidation. Today modernization is the key phrase where many formats and organized retailing are changing the total customer shopping experience. Retail is catching up with the phase of economic growth; private entities from the world region are making a beeline to invest in the sector but are worry of some challenges in the huge and diverse market. Analyst predicts that by 2015 almost 72 percent of the population would be under 35 years old, a aspiring youth will contribute to the highest numbers of consumers in the world. India's retail revolution has been driven by large expectation, there has been an high income opportunities, the service has created new jobs, MNCs entering India and homogenous companies going global, the changing attitude of consumer from save to spend, international exposure, necessities to lifestyle, i.e shift of expense basket from basics to the lifestyle products, dynamic change at the market place and government policies has fluid retail segment. A flurry of interest by Indian and international companies and a large activity in the development and operation of retail mall. Analyst experts says that the Indian retail growth process will take a decade since there is a large population of one billion, that needs to be slowly reached and this population is spread over 6,36,395 villages and 4000

towns. Retail in India picked up in the year 1980's, when the country started to opening up its economy.

OBJECTIVE OF THE STUDY:

1. To understand the retailing in the Indian context.
2. To study the different emerging modern retail formats.
3. To know about the challenges and opportunities in modern retailing in India

METHODOLOGY:

The present study is totally depending on secondary data. However, an attempt is made by the researcher to gather information from high quality of documents and

Sources. The secondary has been collected from various references which already existed in published form; part of the paper is based on literature review the method comprising of collecting all the available papers relating to the advertising and selecting relevant papers / books for the review purpose. Selection of the paper is done on the basis of their relevance and contribution to the body of knowledge. The researcher has made an attempt to do a primary reading of the selected papers which will constitute the core of this review study. Finally the papers were selected and reviewed in order to capture various dimensions of modern retailing in India.

REVIEW OF LITERATURE:

However a number of studies have been conducted in the form of surveys and research on retailing. An attempt has been made by the researcher to understand and acknowledge the work of various researchers in the filed of retailing and also to get an insight into the problems and the opportunity of retailing.

Kalian Kumar De says retailing in India is progressively moving towards becoming the next boom in industry. One store management has given ways to chain stores. Super markets have replaced mundane grocery shops. Looking at new fast food joints and chains penetrating the markets every day the whole notion of shopping has altered in terms of format and buying behavior, ushering in a new wave of shopping in India.

Financial Express reports that S.Narayan¹ a former finance secretary and economic advisor to the PM says that there are number of local players willing to invest the capital and technology. He says retailing is not rocket science - as far as products are concerned, with lowered tariffs, products are available. FDI in retail is neither a requirement of capital nor of technology, only of certain partisan interests, and

hence there is no need to rush with relaxations of FDI in this sector. Business today reports that according to Nagaraja Narashima² CRIS Infac's head of research organized retail will total up revenue of Rs. 109,500 crore bt the year 2010. According to CRIS Infac report, Tier ii cities accounts for 13 percent of the country's total retail spend. Here there is a significant price differential. There is a 45 to 50 percent discount on lease rental in these cities (10 Tier ii cities have been considered for the study, including Nagpur, Nashik, Kanpur, Lucknow and Kochi) compared to the big cities (the four metros - Delhi, Mumbai., Kolkatta and Chennai) and the four mini metros - Hyderabad, Bangalore, Ahmadabad and Pune) he points .

THE INDIAN RETAIL SECTOR

India is the country having the most unorganized retail market, in India the retail business contributes around 10 percent of GDP of this the organized retail sector accounts for about 3 percent share and the remaining 97 percent is contributed by the unorganized sector. The main challenge facing the modern retail is the competition from the unorganized player. In late 1990's the retail sector has witnessed a level of transformation. Modern retail business in India is very small but has tremendous scope

According to KSA Technopak, a retail consulting and research agency, predicts that by 2010, organized retailing in India will cross the US\$ 21.5bn mark from the current size of US\$7.5bn. The Indian retail scene has witnessed too many players in too short a time, crowding several categories without looking at the core competencies. Various domestic giants have entered the retail format in a aggressive way. The emergence of new format and the evolution of modern retail in India have attracted attention in recent year. Today the India retail industry is evolving at a fast pace. AT Kearney's global retail development index (GRDI) has been identifying windows of opportunity to help retailers make strategic investments in exciting new markets. Low market saturation has been one of the most important features of India's retail market, which has enabled the country to claim the top spot in the gross retail development index (GRDI). Retailers moved from talking about expansion plans to acting on them in top cities.

The organized retail segment growing at 25 to 30 percent revenue may triple from the current US\$7.7 bn to US\$BN by 2010. The share of modern retail is likely to grow from it's current 3 percent to 15 to 20 percent over the next analyst feels. In India the major chunk is middle class and its almost untapped retail

industry is the key attractive forces for the global retail industry to grow faster.

THE KEY DRIVER OF INDIAN RETAIL:

The changes in the national social structure like improvement of the national economy, i.e. the economic development have positively change the mind set of international retailing companies about the business prospects and investment attractiveness in India, consumerism and consumer spending levels are increasingly contributed to the economy in the post-liberalized period in India., urbanization, and change in socio cultural conditions i.e. rising incomes, increase in number of working women, nuclear families, cross-cultural influence, improves sourcing options and availability of real estate, the internet revolution is making the Indian consumer more accessible to the growing influence of domestic and foreign retail chain, liberalization of Indian economy are the main casual factor for the development of these modern format

MODERN RETAIL FORMAT:

In the present scenario Indian consumers are rapidly evolving and accepting modern formats overwhelmingly. Retailers and suppliers / brands world-wide are willing to partner with retailer in India. Reliance had a joint venture with Marks & Spencer (clothing & home ware), Pearl Europe (Chain of optical stores), and Office Depot (office products and services). Aditya birla have acquire Trinethra (the sound Indian based chain store), Bharati - wal Mart for cash and carry. Following are the retail formats:-

Trends of shopping malls are becoming increasingly common in large cities and the major player like Tata's, Relaince, Future groups, Aditya Birla , Bharati etc are having an aggressive plan for various formats, Tata company trent have signed 23 properties for hypermarket, the Relaince retail is roll out to spread over 3.5 million sq ft, Aditya Birla is talking about 100 hyper markets over next few years, Croma is planning to add 100 stores by 2010. The Indian retail sector saw drastic changes in formats, now there is a need to understand and react to the habits and the cultural and regional diversity of the country while formulating retrial strategies. Organized retail has opportunities but faces challenges in terms of product categories that it can profitably offer.

CHALLENGES & OPPORTUNITIES:

Major challenges of modern retailing in India:

India is a typical society with diversity as its character. The common values of entire India are very few and the diversity in values, culture, habits, lifestyles,

traditions languages, religions, incomes will not allow any company to take India as one. In a market like India domestic and MNC corporate retailers needs to focus on three level of diversity i.e Individual level, organizational level and national level. In the country like India there are 29 states, 5 union territories, 18 official languages, 5600 dailies, 15,000 weeklies, 20,000 periodicals in 21 languages.

Individual level: Language, race, gender, attitudes, skills, motivation and career development. The Indian consumer are typically price sensitive across the socio-economic and demographic profile, convincing consumers on the intangible additional values offering is not at all an easy problem to handle.

Organizational level: Strategic orientation, organization structure and size, recruitment and retention.

National level: Political environment, macro economic forces, regulatory, legal frame work, public administration, infrastructure, financial markets and policies and communication. In this endeavor, success will come to those modern retailers corporation in which the leadership is able to manage the challenges of diversity at each level in an integrated manner. Diversity creates one and only one thing i.e opportunity

Income and consumption growth

According to Mckinsey global institute analysis the Indian middle class has already begun to evolve and by 2025 it will dominate the cities. By the year 2025 a continuing rise in personal income will spur a tenfold increase, enlarging the middle class to about 583 million people, or 41 percent of the population against 5 percent of the population i.e 50 million now. Secondly the discretionary spending in India will rise from 52 percent of total private spending to 70 percent in the year 2025. The growing income and consumption will pressure the modern retailers in two ways. First the retailers must adjust to the pace and magnitude of change for a consumer rise through the income brackets, consumer brand loyalties, needs, tastes and aspirations will evolve along with their lifestyle. Secondly India's growing consumption will attract a RAFT of challengers and intensify competition in many markets.

Table 1.3 shows that by the year 2012 the private consumption will be US\$ 870 bn against US \$ 580 bn, in existing retail market, this will further fuel the growth of retail sector and the urban retail spend will be 31 percent against 8 percent current urban retail and 3 percent in the rural modern retail. This will throw major challenge for the organized player.

Real Estate:

The precondition of modern retailing is the availability of quality space at a prominent location for a large format stores, this pose a challenge due to fragmented private holdings and litigations disputes between land owners. Due to increase in demand of space from organized retailers and the absence of readily available land supply, causes a demand - supply gap eroding the operational efficiency of most retailers. India per capita retail space is the lowest in the world as just about 2 sq.ft. When compared to the US figure of 16 sq. ft. per person. However with overall development of the economy has pushed the cost of real estate in major metros and tier ii cities to exorbitant heights adversely affecting the finances and subsequent expansion plans of modern retailers. The big giants national and MNC players have realized that its not easy as it appeared. Retail rental, touching Rs. 300/- per sq.ft per month in Delhi and Mumbai have forced retailers to shy away from mall side retailing. The cost of retail space also pose a major challenge faced by modern retailers, with the increase in demand from Indian organized retail sector, the real estate price have escalated, this further throws challenge to its growth and overall profitability in retail sector.

Work force management issue:

Managing people is the biggest challenge. The retail industry is one of the fastest growing industry i.e 30 percent per annum and expected to grow further, in order to keep pace with the growth, modern retailers are becoming proactive in terms of hiring the skilled staff, at the middle and senior management levels. Modern retailers for talent acquisition are taking an initiative to join hands with the B-Schools management and structuring the training module tha build the desire skills of work force and improve the retention rates. Modern retailers need to focus on some of areas such as technology, supply chain, distribution; logistic, marketing, product development and research are becoming critical for success of the organization. The modern retail would lead to the recruitment of highly professional people who specialize in this field. Pantaloon has set up link with major business school from where it would be selecting right candidates for the right job in the retail. The retail sector is likely to produce two million jobs in the coming years. The retailers have difficulty in finding trained persons and also have to pay more in order to retain them. This again brings down the retail profit level. The challenges facing the Indian organized retail sector are there, but it will have to be dealt with and only

than the sector can prosper.

Supply chain complexity:

The economy is growing very well and the organized retail is booming with bigger players both global and homogenous, entering the market. The challenges are huge too, whether it is setting up the supply chain or inventory management. The upward trend of modern retail will pose challenge to retailer in the entire supply chain management, as to how retailers can move or store products effectively and efficiently. In traditional retail in India normally three week inventories are kept, while in the modern retail it is basically nine days. Since there is constant change in the likes and dislikes of consumer i.e consumer preferences and the evolution of new retail formats, all these increases the challenge faced by the modern retail industry. The major modern players are under pressure to improve the supply chain and logistics that enable retailers to satisfy the customer in terms of quality and services desired. The strength in physical distribution will remain the backbone of any modern retail format.

Foreign direct Investment (FDI)

The fear of FDI in retail has a challenging dimension as it is expected to affect the usual mom and pop stores, farmers and small scale manufacturing with the kind of monopoly MNCs has in their buying power. The reliance fresh has to taste the anger in south / north. However the government of India has allowed 51 percent FDI in single brand retail, but the multi brand retailing is still prohibited. The major retail players have focused their operations in India either in form of single brand retail or in the form of wholesale cash and carry. After all we allow FDI in insurance and banking, media, why not in retailing? Allowing FDI has resulted in these sectors has resulted in lower prices to the consumer, better quality / services, more consumption and higher profits to the producer. The retail and wholesale trade contributes to 13 percent of GDP. There is a perception that FDI in retail trade will destroy commerce, that's guess? Will it? There's possibility that the traditional fragmented system may give way or evolve into modern integrated network system. Since the retail trade is growing at the rapid pace with a large number of aspirant middle class consumer shopping at the malls, the whole debate on FDI in retail boiled down to large domestic retailers v/s. small retailers not FDI v/s mom and pop stores, as the big domestic industries in country have a aggressive malls plan across the country. The issue of the employment should be assessed form the

welfare of the overall lower middle income group, not only to the specific segment of LMIG, the emergence of the organized retail sector will create new jobs for a different sections, modern retailing distribution, small scale manufacturing, packaging, transport sector etc. The modern retail will improve the quality of employment as larger players will be able to provide better social security, training and growth opportunities. We need a rational approach toward FDI in modern retail.

In the emerging market like India there is a constant clash between challenges and opportunities, to sustain in the market like India companies have to bring innovative solutions. India market has a potential to accommodate many retail players because still a small portion of the pie is organized. Looking at the various formats the modern retailers are experiencing with the changing times one needs to focus on the following:-

FROM	TO
Quantity of product	Quality of product (Retail today has changed from selling a product / service to selling a hope, an aspiration and above all a experience that a customer would like to repeat.
Risk avoidance	Risk management (by adopting a modern technology like RFID, bar coding, security systems etc)
Focus on training	Focus on development of resources
People issue	Process issues (Being complex process – No. of SKU's, multiple MRP, forecasting & replenishment, JIT, managing channel conflict, evolving process in supply chain and merchandize.

Source: Compiled from the study

Conclusions:

The Indian sector is largely traditional, but the stores in modern format are emerging, though the contribution of modern retailing in share of retail sales in India is very small. Secondly the advanced and emerging new technologies are progressively throwing up new opportunities for retailers to open their stores in India in the form of joint ventures. In the present scenario to meet the global standards may allow to bring the FDI, but simultaneously the Government of India should develop the policies to restrict the foreign investor to operate in the big cities, so as to protect the interest of small traders. Managing retailing in an effective manner requires managing channel conflict through the best practices of supply chain management, delivering a satisfying experience, are some of the positive dimension of modern relating. Modern retail not only provide the Indian consumers a wider choice but also represents a very large employment opportunity for people with diverse skill set.

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Table 1.1

Attractive retail locations

At Kearney ranking for most attractive retail locations

Ranking	Country	Country risk(Economic & political)	Market attractiveness	Market saturation	Time pressure	Score
1	India	67	42	80	74	92
2	Russia	62	52	53	90	89
3	China	75	46	46	84	86
4	Vietnam	57	34	76	59	74
5	Ukraine	41	43	44	88	69
6	Chile	80	51	42	43	69
7	Latvia	77	32	21	86	68
8	Malaysia	70	44	46	54	68
9	Mexico	83	58	33	33	64
10	Saudi Arabia	65	40	35	35	64

Source: AT Kearney, Business standard, 31 July'07

Table 1.2

Modern retail formats in India

Formats	Existing players
Hyper market	Big Bazar , Spencer, Vishal Mart
Department stores	Akbarally's, Shopper's Stop, Pantaloon
Specialty stores	Tata, Bata, Tanishq
Convenience stores	Food world, Subhishka, Reliance Fresh
Specialty format	Archies, Palnet - M, Reebok
Consumer durable chain	Sumaria, Vijay Sales
Food services	Pizza Hut, Barista, McDonald's

Source: Compiled from the study

Table .1.3

Growth in the retail market

Existing Retail market			Retail market by 2012		
GDP	US\$ 935 bn	Percentage	GDP	US \$ 1450	Percentage
Private consumption	US \$ 580 bn	62%	Private consumption	US \$ 870 bn	60%
Retail	US\$ 342 bn	59%	Retail	US \$ 530 bn	61%
Urban	US \$ 154 bn	45%	Urban	US \$ 252 bn	47.5%
Urban Modern Retail	US \$ 12 bn	8% of urban retail spend	Urban Modern Retail	US \$ 78 bn	31% of urban retail spend
Rural	US \$ 188 bn	55%	Rural	US \$ 278 bn	52.5%
Rural modern retail		Negligible	Rural modern retail	US \$ 9 bn	3% of rural retail spend

Source: Technopak analysis & CSO