

# RETAIL INDUSTRY IN INDIA: THE G-LOCAL PERCEPTION

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## **Abstract**

Organized retail has clearly been one of the most talked about consumption stories of the last decade in India. Interestingly, in the next 2-3 years, we will have a generation of urban affluent teenagers who have continually been exposed to shopping centres and organized retail since they were born.

Retailing is the second largest industry in the US in terms of number of people employed. Wal-Mart, the largest retailer in the world with annual sales of US\$ 284 billion is also the largest employer in the US. The retailing industry in the US employs more than 22 million Americans and generates more than \$3 trillion in sales annually. Like the US, many developed and developing economies rely on this sector for growth. In India, the retail industry is broadly divided into the organized and unorganized sectors. The total market in 2005 stood at Rs. 10,000 billion, accounting for about 9-10% of the country's gross domestic product (GDP).

## **Introduction**

The word 'retail' means to sell or be sold directly to individuals. Retail is India's largest industry, and arguably the one with the most impact on the population. It is the country's largest source of employment after agriculture, has the deepest penetration to rural India, and generates more than 10 percent of India's GDP. However, retailing in India has so far, been mostly in the hand of small unorganized entrepreneurs. It is also India's least evolved industries.

The Indian Retail Industry is standing at its point of inflexion, waiting for the boom to take place. The inception of the retail industry dates back to times where retail stores were found in the village fairs, Melas or in the weekly markets. These stores were highly unorganized. The maturity of the retail sector took place with the establishment of retail stores in the locality for convenience. With the government intervention the retail industry in India took a new shape. Outlets for Public Distribution System, Cooperative stores and Khadi stores were set up. These retail Stores demanded low investments for

its establishment. The Indian retail industry gathered a new dimension with the setting up of different International Brand Outlets, Hyper or Super markets, shopping malls and departmental stores

The industry suffers from lack of management talent, poor access to capital, unfavorable regulation and denial of access to best practices. The Indian retail industry is only now beginning to evolve in line with the transformation that has swept other large economies. Fifty years of restricting the consumer goods industry, a national mindset which favored denial over indulgence, and a fractured supply chain for agricultural products have all contributed to prevent the development of modern tenants based on scale advancements and consumer preferences.

India has some 12 million retail outlets, but many of these act merely as subsistence providers for their owners and survive on a cost structure where labor and land is assumed to be free and taxes nil. Compare this with the global retail industry, which is one of the world's largest organized employers, is at the cutting edge of technology, and leverages scale and scope to offer value-added services to its customers.

However, only recently has there been an awakening in this sector, with more organized retailers starting to make an impact. The liberalization of the consumer goods industry, initiated in the mid-80s and accelerated through the 90s has begun to impact the structure and conduct of the retail industry. Backed by changing consumer trends and metrics, liberalization in mindsets driven by media, new opportunities and increasing wealth, retailing in India, presents a vast opportunity for a variety of businesses - real estate, store design & operations, visual merchandising logistics and communications, B2C service providers, and FMCG companies who can add to their offers by partnering this revolution.

## **Global Retail Industry**

Retail, with total sales of \$ 6.6 trillion, is the world's largest private industry ahead of financial industries \$ 5.1 trillion. It is also home to a number of

the world's largest enterprises. Over 50 of the Fortune 500 companies, and around 25 of the Asian top 500 companies, are retailers. The industry accounts for over 8 percent of the GDP in western economies.

Leading global retailers such as Wal-Mart, Tesco and others are keen to enter the Indian retailing industry. The Chicago-based Sara Lee Corporation is planning to enter the Indian apparel market. Dior, the well known watch brand from the Louis Vuitton Moet Hennessy (LVMH) group, is planning to include India among its top 12 world markets.

By the end of 2011, the list of India's top 10 retailers will have at least 5 Indian corporates. Retail Marketing will go through a tremendous change in India this millennium. It will change India's cities, its people, and its households. The Indian consumer is reportedly the largest spender in Singapore and London. It is, therefore, strange that there have, so far, been few efforts to present the product in the right kind of environment in India. Indeed, the right shopping experience does induce Indian consumers to spend more.

**Few factors that driving the growth are:**

- ❖ Mall Mania: The developing mall culture in India
- ❖ Emergence of region-specific formats
- ❖ Emergence of discount formats
- ❖ Entry of international players

India has the scale and the potential to transform itself into a retail powerhouse. It has been rated as the fifth most powerful and most attractive emerging market for retail globally. Over the next five years the market is certain to evolve significantly and we shall see growth of a few retailers beyond the Rs 1000 crore turnover (USD 230 million), with significant expansion in network size it is sure to offer huge employment opportunities.

But the growth of organized retail has nowhere been close to what was originally expected. After almost fifteen years of raising its head and consequently everyone's expectations, the share of organized segment within the overall retail business stands at a paltry 5-6%. It is interesting to note that even today, the annual net profit of most of the larger Indian organized retailers is only in double digit crores.

Compare that with profits of firms in some other services sectors which also started growing around the same time (software, media and financial services for example) and you will get a sense of where it stands. This clearly does not augur well for the future capital expenditure badly needed by most retailers to expand their footprint, invest into the back-end, create greater efficiencies in procurement and

ultimately improve net margins. The recent government discussion paper on allowing FDI in multi-brand retail is of course a welcome move. Why it took so long for the government to start thinking about foreign retailers positively is anyone's guess. The reason given is that the small and unorganized 'Indian' retailers (12 million at last count) need to be protected against the well capitalized 'foreign' retailers. The question is not between Indian and foreign, it is actually between organized and unorganized. The small retailer's business doesn't get impacted only if Wal-Mart sets shop across the road. It also gets equally impacted if Big Bazaar does.

Of course, in the real world, there are various lobbies and pressure groups that exist and influence government decision making. By now most large business houses have established their presence within the retail sector and need foreign retailers to come in and pay fancy valuations so that the promoters can make money and the business can get a capital injection. Obviously it is a good time to allow the foreigners to come in! Let's see how that evolves given the political compulsions at play.

In the meanwhile, the small & traditional retailers in high streets and bazaars continue to thrive and it is becoming more and more interesting to witness the evolution of the retail business matrix in India. Last two years also saw the economic downturn and most retailers consolidated operations and shut down unprofitable stores; several went bust (Subhiksha, Vishal); almost all slowed down their break-neck expansion plans and focused on improving their balance sheets.

The overall universe of organized retailers in India is probably smaller than what it was in 2008 but equally, it is in better shape and now beginning to grow once again.

The basic reason may be:

- ❖ Rising incomes and a consequent increase in disposable incomes.
- ❖ Better infrastructure.
- ❖ Rise in consumer awareness.
- ❖ Consumer keenness to buy branded products.
- ❖ Consumer desire to purchase quality products and services.

The retail industry in India is growing at a significant pace. However, there are several problems faced by the industry. The major challenges for the organized sector include:

Indian Retail Industry today is the fastest growing industry in India and it accounts for 10% of the country's GDP. In 2006, the retail industry in India

amounted to US\$ 200 billion and out of this; the organized retail sector in India amounted to US\$ 6.4 billion. By 2011, the Indian organized retail sector is expected to rise to US\$ 23 billion. In 2003, the Indian organized retailing sector accounted for more than 4.5 million sq. ft of space absorption by malls.

Many Indian companies have entered the retail industry in India and this is also a factor in the growth of Indian organized retail sector. Reliance Industries Limited is planning to invest US\$ 6 billion in the organized retail sector in India by opening 1500 supermarkets and 1000 hypermarkets. Bharti Telecoms is planning a joint venture worth £ 750 million with Tesco a global retail giant. Pantaloons are planning to invest US\$ 1 billion in order to increase its retail space to 30 million square feet. Such huge investments are also a factor in the growth of the organized retail sector in India.

The factors for growth in Indian organized retail sector are many and that's the reason behind its massive growth. But for this to continue both the Indian retailers and the government will have to work together.

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