

# New Dimensions in Retail Sector with Changing Times in India

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**Abstract:** As India's retail industry aggressively expands itself, great demand for real estate is being created. Further, with the online medium of retail gaining more and more acceptance, there is a tremendous growth opportunity for retail companies, both domestic and international. Favorable demographics, increasing urbanization, nuclear families, rising affluence amid consumers, growing preference for branded products and higher aspirations are other factors which will drive retail consumption in India. Both organized and unorganized retail are bound not only to coexist but also achieve rapid and sustained growth in the coming years. The paper includes trends in retail industry in India, factors driving growth in Indian retail industry, share of organized and unorganized retail market, top priorities for retailers, retail in School and Colleges, key players in Indian retail sector, financial assistance and regulatory norms, problems and challenges and future prospects of retail sector 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:** Nuclearisation, Urbanization, Hypermarkets, Cost Rationalization, Specialty Stores

## I. INTRODUCTION

Retailing is a distribution channel function, where one organization buys products from supplying firms or manufactures products themselves, and then sells these directly to consumers. In majority of retail situations, the organization, from whom a consumer buys, is a reseller of products obtained from others, and not the product manufacturer. However, some manufacturers do operate their own retail outlets in a corporate channel arrangement. Retailers offer many benefits to suppliers and customers as resellers. Consumers, for instance, are able to purchase small quantities of an assortment of products at a reasonably affordable price. Similarly, suppliers get an opportunity to reach their target market, build product demand through retail promotions, and provide consumer feedback to the product marketer

The retail sector has been at the helm of India's growth story. The sector has evolved dramatically from traditional village fairs, street hawkers to resplendent malls and plush outlets, growing from strength to strength

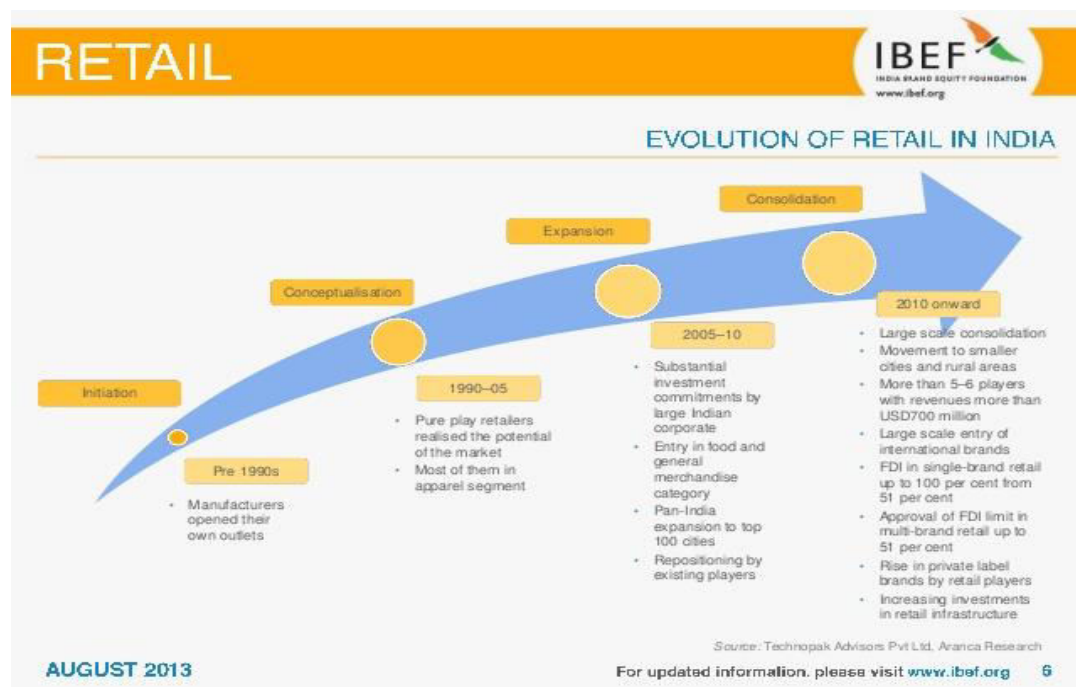


Fig.1. Evolution of Retail In India

During the last few years, the Indian retail market has seen considerable growth in the organized segment. Major domestic players have entered the retail arena and have

ambitious plans to expand in the future years across verticals, formats, and cities. For example, companies like Reliance, Tata, Bharti, Adani Enterprise, have been

investing considerably in the booming Indian retail sector. Besides, a number of transnational corporations have also set up retail chains in collaboration with big Indian companies.

The Indian retail sector has the unorganized sector of around 13 million retail outlets that account for around 92% of the total Indian retail industry and the organized sector's growth potential due to globalization, high economic growth, and changing lifestyle is likely to increase. Moreover, high consumer spending over the years by the young population (more than 31% of the country is below 14 years) and sharp rise in disposable income are driving the Indian organized retail sector's growth. Even small towns and cities are witnessing a major shift in consumer lifestyle and preferences, and have thus emerged as attractive markets for retailers to expand their presence.

The Indian Retail sector has come off age and has gone through major transformation over the last decade with a noticeable shift towards organized retailing. A T Kearney, a US Based global management consulting firm has ranked India as the fourth most attractive nation for retail investment among 30 flourishing markets. In terms of sheer space, the organized retail supply in 2013 was about 4.7 million square feet (sq ft). This showed a 78 per cent increase over the total mall supply of just 2.5 million sq ft in 2012. "Favorable demographics, increasing urbanization, nuclearisation of families, rising affluence amid consumers, growing preference for branded products and higher aspirations are other factors drives retail consumption in India," said DS Rawat, Assoc ham Secretary General

The retail market is expected to reach a whopping Rs. 47 lakh crore by 2016-17, as it expands at a compounded annual growth rate of 15 per cent, accordingly to the 'Yes Bank - ASSOCHAM' study. Retail Industry in India, contributing over 10 per cent to the country's GDP and accounting

for around 8 per cent of the employment, is the largest among all the industries. Over the years, it has come forth as one of the most dynamic and fast paced industries.

**Trends in the Industry:**

- Emergence of innovative retail formats
- Online retail
- Rural Retail

- Integration of various business strategies

Globally, India is among the top 10 retail markets. In 2013, the Indian retail sector was estimated at US\$520 billion and was among the largest employers in the country. By 2018, the Indian retail sector is likely to grow at a CAGR of 13% to reach a size of US\$950 billion. Organized retail sector's penetration level is 85 per cent in US, 80 per cent in France, 66 per cent in Japan, 20 per cent in China and, merely 5-6 per cent in India. This confirms that India is at an early stage of evolution in the organized retail space and has a huge growth potential The Indian retail sector is set to grow rapidly with a gradual shift toward organized retailing formats. Organized retail penetration is expected to increase from 8% in 2013 to 10% in 2018 at a robust CAGR of 19-20% during the same period. This will be driven by a combination of demand, supply and regulatory factors, which are expected to be the growth engines of the Indian consumer and retail market.

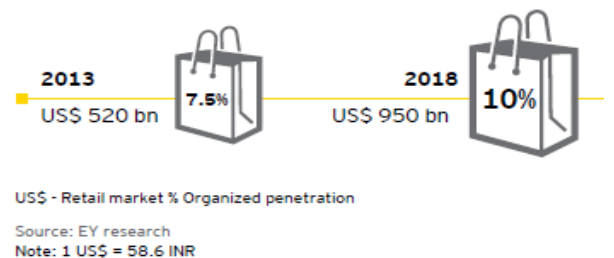


Exhibit 1: Indian Retail Market and Organized Penetration

**Organized & Unorganized Retail Sector in India:**

India constitutes only 8% of organized retail and remaining 92% is left unorganized, which may grow much faster than traditional retail. It is expected to gain a higher share in the growing pie of the retail market in India. Various estimates put the share of organized retail as 20% by 2020. The growth pattern in organized retailing and in the consumption made by the Indian population may follow a rising graph helping the newer businessmen to enter the India Retail Industry. The country's traditional retail industry is expected to grow at an average annual rate of 5% over the next year, while the organized retail is estimated to register a growth rate of around 25% during this period.

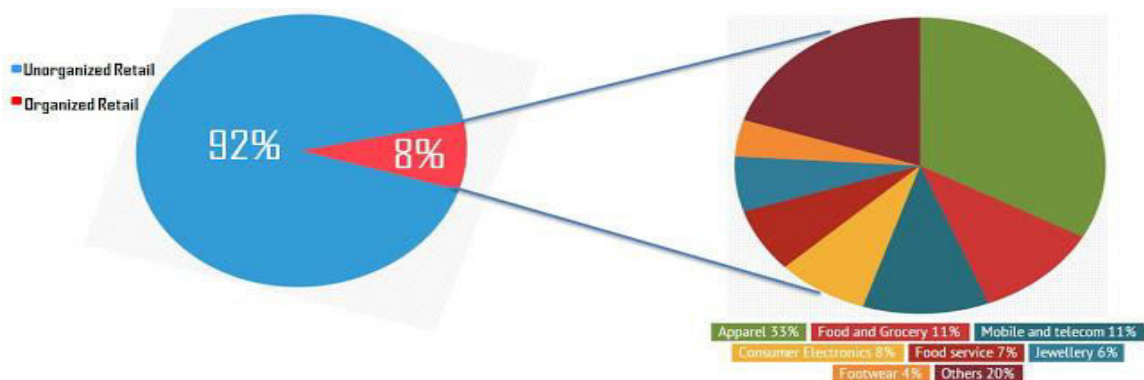
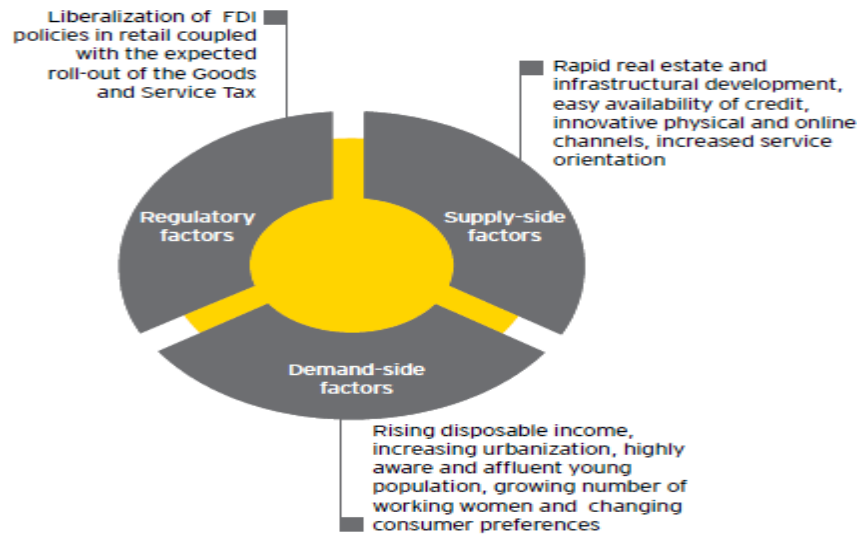


Fig.2. Composition of Retail Sector In India

Within the organized retail sector, Apparel is the largest segment. "Food and Grocery" and "Mobile and telecom" are the other major contributors to this segment.



Source: "Indian Single Brand Retail - Poised for growth," EY-RAI report, September 2013

Exhibit 2: Factors driving growth in the Indian Retail Industry



Source: EY-RAI Retail CFO Survey (% of respondents which have selected the above option)

Exhibit 3: Top Priorities for retailers in 2014

### Retailing in School and College Course:

Keeping pace with the change in the Indian retail sector the Central Board of Secondary Education (CBSE) launched a retail course under the vocational stream at the senior secondary level from the academic session 2012-13 for class XI and XII.

According to Biswajit Saha, programme officer, vocational, CBSE "This course will be offered under vocational stream as 4/5 selective for class XI & XII. The curriculum includes major course on retail combined with business entrepreneurship development (minor), soft skills, etc. The course will be delivered through theory sessions supported by practical applications. The board will also provide students with the books." Courses are available for fresher's wanting to work in the retail industry and for people working in the retail industry without any formal education about the industry. "Short-term courses — one-year diploma programmes in retail as offered by various B-schools in the country for those who want to make a career in the retail industry are on offer. Students can also do a full-time programme -

PGDM retail management (approved by AICTE)," points out Salunkhe. For fresher's in the retail industry, physical fitness plays the most important role. One needs to have a mental readiness to spend time on the shop floor. To grow in the industry, beginners must keep a keen watch over (read about) economic conditions in different countries — which are the developing economies, look at investing patterns in various countries' FDI, type and methods of funding, etc, how to reach the consumer in the digital era, new communication platforms and leveraging them is also important in the modern day scenario.

### Key Players in the Indian Retail Market, with A Dominant Share Are:

- 1) Pantaloon Retail Ltd, a Future group venture: Over 12 mn sq. ft. of retail space spread over 1,000 stores, across 71 cities in India.
- 2) Shoppers Stop Ltd: Over 1.82 mn sq. ft. of retail space spread over 35 stores, in 15 cities.
- 3) Spencer's Retail, RPG Enterprises: Retail footage of over 1.1 mn sq. ft. with approx 250 stores, across 66 cities.
- 4) Lifestyle Retail, Landmark group venture: Has approx-

ximately 15 lifestyle stores and 8 Home centre's. Other major domestic players in India are Bharti Retail, Tata Trent, Globus, Aditya Birla 'More', and Reliance retail.

*Some of the Major Foreign Players who have Entered the Segment in India Are:*

- Carrefour which opened its first cash-and-carry store in India in New Delhi.
- Germany-based Metro Cash & Carry which opened six wholesale centres in the country.
- Walmart in a JV with Bharti Retail, owner of Easy Day store—plans to invest about US\$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country.
- British retailer Tesco Plc (TSCO) in 2008, signed an agreement with Trent Ltd. (TRENT), the retail arm of India's Tata Group, to set up cash-and-carry stores.
- Marks & Spencers have a JV with Reliance retail.

## II. FINANCE AND ASSISTANCE

The Indian retail sector accounts for 22 per cent of the country's gross domestic product (GDP) and contributes to 8 per cent of the total employment. India continues to be among the most attractive investment propositions for global retailers. Cumulative foreign direct investment (FDI) inflows in single-brand retail trading, during April 2000 to June 2011, stood at US\$ 69.26 million. Till now FDI up to 100 per cent was allowed for cash and carry wholesale trading and export trading under the automatic route, and FDI up to 51 per cent was allowed in single-brand products, with prior government approvals. However, the Government recently passed a cabinet note and permitted FDI upto 51% in multibrand retailing with prior Government approval and 100% in single brand retailing thus further liberalizing the sector. This policy initiative is expected to provide further fillip to the growth of the sector.

## III. REGULATORY NORMS

Multiple laws and regulations are in force at the central, state and local levels for governing the retail sector. Absence of specific legislations controlling distribution trade and the existence of a plethora of laws such as the Essential commodities Act, the Cold Storage Order, the Weights & Measures Act, labor laws, the Shops Establishments Act and so on, leads to market distortion.

Timely and effective implementation of GST will help bring about market integration. Streamlining the barriers for interstate movements and removal of all sales tax check points is possible if the implementation of GST is done with a national, on-line tax payment system. There should be quick implementation of all the provisions of the APMC Act, in letter and spirit, namely the institutionalization of market intermediaries, contract farming and so on.

*Major Problems of the Retail Industry:*

*Auditing:* Auditing is one problem that the retail industry

faces on a regular basis. Retail businesses are regularly engaged in competition with one another, and this competition can create price wars, forcing a need to keep tight control over inventory and other important data.

*Economic Challenges:* Another area of challenge for the retail industry is the economic uncertainty it faces moving forward. The retail industry as a whole is largely dependent upon the economic well being of the nation. As the nation prospers and people have more money to spend, the retail industry generally flourishes.

*Technology:* Keeping up with the pace of modern technology is another problem the retail industry faces. For instance, retail point of sale technology often uses computer systems that are several years behind the computer industry as a whole

## IV. CHALLENGES

Although the growth potential in the sector is immense, it is not without challenges that could slow the pace of growth for new entrants. Additionally, resource constraints at shopping mall projects are also delaying completion and disrupting many retailers' entry strategies.

Some of the key challenges faced by the sector are:

1) *Shortage of Skilled Manpower:* Front-end/retail assistant profiles in stores form a major proportion of the employment in the retail sector while store operations account for 75-80% of the total manpower employed in the organized retail sector. Unfortunately, there are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited. Further, retail training opportunities such as niche courses for areas like merchandising, supply chain and so on are limited. The condition is more alarming in the unorganized sector where the manpower is not equipped with even the basic level of retail specific and customer service skills, which adds to their incompetence vis-à-vis the organized sector. A cohesive effort to develop skills within the sector can have a significant potential impact on productivity and competitiveness, both within the sector and on the wider economy.

2) *Lack of industry status:* Due to the absence of 'industry status', organized retail in India faces difficulties in procurement of organized financing and fiscal incentives. The Government should grant the much needed 'industry status' to the sector so that the sops that come with it help promote both big & small retailers.

3) *Policy induced barriers:* Organized retail in India is managed by both the Ministries of Commerce & Consumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislations. There is a need to govern retail operations through a single apex body. A single agency can take care of retail operations more effectively, especially with regard to addressing the grievances of retailers. The development of the retail sector can take place at a faster pace if a comprehensive legislation is enacted.

4) *Real estate*: Lack of sophisticated retail planning is another major challenge the sector faces. Available space is easily interchangeable between commercial and retail use. In most cities, it is difficult to find suitable properties in central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.

## V. THE FUTURE

Organized retail is a new phenomenon in India and despite the downturns, the market is growing exponentially, as economic growth brings more of India's people into the consuming classes and organized retail lures more and more existing shoppers into its open doors. By 2015, more than 300 million shoppers are likely to patronize organized retail chains. The growing middle class is an important factor contributing to the growth of retail in India. By 2030, it is estimated that 91 million households will be 'middle class', up from 21 million today. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States today. Consumer markets in emerging market economies like India are growing rapidly owing to robust economic growth. India's modern consumption level is set to double within five years to US\$ 1.5 trillion from the present level of US\$ 750 billion. Thus, with tremendous potential and huge population, India is set for high growth in consumer expenditure. With India's large 'young' population and high domestic consumption, the macro trends for the sector look favorable. Online retail business is another format which has high potential for growth in the near future. The online retail segment in India is growing at an annual rate of 35 per cent, which would take its value from Rs 2,000

## VI. CONCLUSION

The organized 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 organized 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.

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