

Major Challenges and Opportunities of Organized Retailing in India

Jayadatta S

Anjuman Institute of Technology and Management Bhatkal, Karnataka State

Abstract—A rapidly changing retail landscape is seen in India in recent years and is being scrutinized by large scale investments by domestic and foreign players. Today Indian retail industry is ranked among the ten largest retail markets in the world. The face of retailing in India is transformed by the attitudinal shift of the Indian consumer and the emergence of organized retail formats. In recent years consumer buying in retail sector is being projected as a key opportunity area with the sign of reemergence of economic growth in India. As a consequence, with the idea to use resources optimally in order to create core competence and gain competitive advantage Indian corporate houses are refocusing its strategic perspectives in retail marketing. Changing consumer behaviour and market liberalization have necessarily sown the seeds of a retail transformation. Currently the Indian retail industry is the largest among all the industries, accounting for over 10 percent of the country's overall GDP and around 8 percent of employment. Competition from the unorganized sector is one of the main challenges facing the organized sector today. The organized retail segment is mainly dominated by textile and apparel segment followed by grocery, food and beverage segments. The changing consumption pattern is unleashing challenges and opportunities for retailing growth in Indian urban area. Throughout the world the retail sector has played a phenomenal role in increasing productivity of major consumer goods and services. Companies have to bring innovative solutions to sustain in a market like India. Organized retailing has emerged as one of the most fast and dynamic paced industries with several players entering the market. Organized retail which presently accounts for only 6-7 percent of the total market is likely to increase its share to over 36% by 2016 which offers huge potential for growth in coming years. This paper provides detailed information about the growth of retail industry in India. It also necessarily highlights the challenges and major opportunities faced by the industry in the near future ahead.

Keywords: Growth Drivers, Gross Domestic Product, Organized sector, retailing, Challenges and opportunities

1. INTRODUCTION

The major cause for success of Indian organized retail and marketing is the emergence of retail in India. It is believed that India will become the specialist retailers in future with the help of modern retail techniques. When compared to other chains of distribution the relationship between the retailer and customer is very close. The vast middle class and its almost

untapped retail industry are probably the key features and forces for global retail giants wanting to enter into newer markets in India which in turn will help Indian retail industry to grow faster. A growth rate of 25% is expected from Indian retail. Today India is the third largest economy in the world in terms of GDP as well as fourth largest economy in terms of purchasing power parity. It is believed that modern retailing in India could be worth US \$175-200 Billion by 2016. As of now the food retail industry dominates the shopping basket in India. Growing at a rate of over 20 percent per year the mobile phone retail industry in India is already US \$ 16.7 billion business. With the growing of the market and also with the government policies becoming more favourable and the emerging technologies facilitating operations the future of the Indian retail industry looks more promising than ever. The retail industry in India is divided into organized and unorganized sectors. The trading activities undertaken by licensed retailers, those who are registered for income tax, sales tax etc is referred to as organized retailing. These include various types of retail chains, corporate backed hypermarkets and also the privately owned large retail businesses. On the other hand unorganized retailing refers to the traditional formats of low-cost retailing such as the local Kirana shops, convenience stores, hand cart and payment vendors, owner manned general stores, paan/beedi shops etc. Both MNC's and Indian firms want to get their share of the burgeoning pie. Some of the notable Indian firms are Pantaloon's retail and Big Bazaar, Trent's Westside, Shopper's Stop, Reliance, Wills lifestyle stores, Café Coffee Day which are present in India in different retail formats. Walmart stores have also started operations in India. Some of the leading retail coffee chains of the world such as Barnies, Starbucks are planning to expand in a major way in India.

2. MAJOR OBJECTIVES OF STUDY:

Some of the major objectives of this study are as follows:

1. To study the advantage of modern retailing
2. To study the factors driving the growth of retail sector in India
3. To study the recent trends in Indian retail Industry

4. To highlight the major challenges and opportunities of retail Industry in India

3. ADVANTAGES OF MODERN RETAILING IN INDIA

Some of the major advantages of modern retailing in India can be highlighted below as follows:

1. Enhancing the shopping experience for consumers: Today because of time and traffic congestion trends of shopping with entertainment is gaining momentum. Many product baskets at single location and one stop shopping is offered to consumers by an organized retail. These formats also add experience of large scale purchase, excellent ambience, consumer preference and choice of merchandising.
2. Creating a positive social change: By providing adequate parking facilities retailing leads to improvement in local infrastructure ATM and a safe and secure environment which encourages the setting up of 24 hrs. Convenience stores, departmental stores, supermarkets act as a hygienic ambience to the consumer thus enabling positive change in the industry.
3. Increasing effectiveness and efficiency in agriculture: Today farmers are cultivating crops as per the demand of retailers and the concept of middleman in food supply chain is a matter of yesterday. Farmers are receiving higher returns for their produce while the customers are getting the benefits of reduced pricing. Only organized retail provides mass marketing of packaged and processed foods.
4. Generation of employment: As of today modern retailing has the potential for generating employment to more than 3.2 million people by 2017 in various retail operations and also more than 14 million in indirect retail activities including supply chain management and logistics, contract production and processing as well as retail real estate development and management.
5. Internet drives awareness and initiates online purchases: There has certainly been a substantial increase in the number of Indians who use the internet as well as a concomitant increase in the online purchase. Internet today is not only used for increasing awareness but also to shop online, which has opened a whole new channel of retailing in the Indian retail scenario. A measure to capitalize on the online opportunity through futurebazaar.com has been initiated by future group recently which owns Pantaloon. A similar venture flipkart.com and snapdeal is also proving the new channel to be highly viable, especially since it eliminates the biggest cost of the physical store.

4. FACTORS DRIVING THE GROWTH OF RETAIL SECTOR IN INDIA

Some of the major factors driving the growth of retail sector in India are as follows:

- Improvements in Infrastructure facilities and rising incomes are enlarging the consumer markets and also accelerating the convergence of consumer tastes and preferences.
- Liberalization of Indian economy is one of the major factor
- Increase in spending pattern and per capita income
- The growth of the retail sector is also helped by the advent of dual income families
- Major shift in consumer demand to foreign brands like Sony, Mc Donald's, Panasonic, Pizza Hut, Ikea etc
- Preference of consumer for shopping in new environment
- Indian consumer is more accessible to the growing influences of domestic and foreign retail chains through the Internet revolution. Mainly the reach of satellite T.V Channels is necessarily helping in creating awareness in the minds of the consumers about the global products for local markets.
- About 49 percent of Indian population is under the age of 20 and this will increase to 57 percent by 2016. These young populations who are technology-savvy watch more than 50 TV satellite channels and also display the highest propensity to spend and also will immensely contribute to the growth of the retail sector in the country.
- Availability of the real estate and mall management practices too has contributed much to the growth of retail sector in India.
- Because of the increase in working population changes in demographic profile as well as easy credit availability there is a boom in retail sector
- Rural markets are emerging as a huge opportunity for the retailers which is reflected in the share of the rural market across most categories of consumption
- Information technology is used as one of the major tool by retailers ranging from Amazon.com to eBay to radically change the buying behaviour across the globe.
- Food and apparel retailing are the key drivers of growth for retail sector in India
- India is ranked second in Global retail development index of 30 developing countries drawn up by A T Kearney

- Increasing population of women, raising aspirations w.r.t value added goods sales and favourable demographics are the multiple drivers leading to a consumption boom.

5. RECENT TRENDS IN INDIAN RETAIL INDUSTRY

The development of the Indian organized retail sector depends on the emerging trends in the Indian organized retail sector. Relaxation by the government on regulatory controls on FDI has added to the process of the growth of the Indian organized retail sector. The emergence of retailing in India has more to do with the increasing purchasing power of the buyers especially after post-liberalization, increase in product variety and also the increasing economies of scale and also with the aid of modern supply chain and distribution management solutions. Thus the growth of the retail sector is linked to discretionary income in the hands of the people of a particular country which is linked to economic growth.

Some of the major recent trends/components influencing the retail industry are as follows:

1. Demographic and psychographic changes: Changing demographic lifestyles of Indian population, needs, wants, demands and preferences of the individuals have influenced retail outlets (Eg: Lifestyle, Attitude, perception, behaviour etc). There is also an increase in the percentage of young generation in the country.
2. Availability of adequate space: The unorganized sector outlets are way too small and are essentially spread over most of the counter stores, where the customer cannot move inside the retail shop because of the insufficient space. In the organized sector also the availability of adequate space is a challenge; the floor spaces are also sufficiently large only in a few places in the metros.
3. Availability of wide range of branded products: Many competitively priced products along with quality are seen in the market in today's competitive market. The growth of retail industry also depends on the high demand for the branded products by the customers which has been made available in the retail stores.
4. Role of Information and Communication technologies (ICT's): Technology is necessarily going to play a major role in the retail development in India. The impact of technology in retailing is experienced by retailers. Most of the retailers currently are operating almost everything manually. It is naturally predictable that the retailers are having operational inefficiency in a country where almost 97 percent of retailing is in the hand of unorganized retailers. To manage some of the operations like maintaining inventory, ordering and keeping track of customer by maintaining consumer data base the retailers are required to adopt modern technology.
5. Effective and efficient communication channels: Most of the retail outlets today are using promotional campaigns

as one of the major source to promote their business. Promotional offering for different set of customers based on their needs and preferences and huge category of products along with substitutes is available to the individual at large.

6. Customer requirement and relationship management (CRM): The major reason for retail rush that is being witnessed is the increasing purchasing power of the great Indian middle class. The retailers need to concentrate giving a great experience to the customers through effective and efficient Customer relationship management.

6. MAJOR CHALLENGES AND OPPORTUNITIES OF RETAIL INDUSTRY IN INDIA:

Organized retailing in India is little over a decade old. The pace of growth is still slow and it is largely an urban phenomenon. Some of the major challenges to retail development in India can be highlighted as follows:

1. The kiranas continue even today: Competition from the unorganized sector is the very first challenge facing the organized retail industry in India. For centuries traditionally retailing has been established in India. Kirana stores are a low cost structure; mostly owner operated has negligible real estate and labour costs and even little or no taxes to pay. One of the major and big advantages for the traditional retailing sector is the consumer familiarity that runs from generation to generation. On the other hand big expenses are needed to be met by the organized sector and yet they have to keep prices low enough to compete with the traditional sector.
2. Retail not being recognized as a major industry in India: Lack of recognition as a major industry necessarily hampers the availability of finance to the existing and new players. This also affects growth and expansion plans.
3. High Costs of retail Estate: In some of the major cities in India retail estate prices are amongst the highest in the world. The rent or lease of property is one of the major areas of expenditure. A high lease rental reduces the profitability of a particular project.
4. High Stamp duties during transfer of ownership: Retail sector also faces very high stamp duties on transfer of property in addition to the high cost of real estate which also varies from state to state (8% in Delhi and 12.5% in Gujarat). The problem is compounded by clear titles to ownership while at the same time land use conversion is time consuming and also complex as is the legal process for settling of property disputes.
5. Lack of adequate infrastructure facilities: Poor roads and lack of infrastructure hampers the development of food and grocery retail in India. The existing retailers and

supermarkets have to invest a substantial amount of time and money in building a network.

6. Multiple and complex taxation system: Sales tax rates varies from state to state, while organized players have to place a multiple point control system there is considerable sales tax evasion by small stores. With the introduction of value added tax (VAT) in 2005 in many locations retailers have to face a multi point octroi. Over a period of time certain anomalies in the existing sales system causing disruption in the supply chain.
7. Channel Conflicts: Retailers maintain a direct relationship with their suppliers globally. Most of the FMCG Companies have developed regional distribution and re-distribution network due to complex taxation structure and also geographical spread of the country. If the distribution network is disturbed it will hurt the operating structure of distributors.
8. Shortage of skilled manpower: Major proportion of the employment in the retail sector comes from the front end/ retail assistant profiles in stores and store operations accounts for 75-80% of the total manpower employed in the organized retail sector. But unfortunately there are very few courses which are specific to the retail sector and graduates/ post graduates from other streams are recruited.

7. SOME OF THE MAJOR OPPORTUNITIES FOR ORGANIZED RETAIL SECTOR IN INDIA CAN BE HIGHLIGHTED BELOW AS FOLLOWS:

India's booming economy itself is a major source of opportunity. In terms of purchasing power India is the third largest in the world. Retail marketing gets various opportunities to grow in the Indian market. Not only retailing but suppliers as well as manufacturers too have various opportunities.

1. Urbanization in retail segment: Increased Urbanization has necessarily shifted the consumers to one place and thus a single retail chain can catch more customers today.
2. Plastic Revolution: Today more and more use of credit cards is in favor of retail marketing. It also creates requirement many times even when it is not necessary.
3. Nuclear family: Joint families came in a new form called as nuclear family as the time passed away. As both members start earning the income level of the nuclear family increases. This surely results into increased purchase power and lack of time. As nuclear families wanted everything under one roof the concept of organized retailing was in place.
4. Jo Dikhta hai who bikhta hai: Most of the organized retail stores put stress on proper infrastructure facilities like well maintained building., trained employees, electronic

machine, air conditioning, parking facilities and proper display of goods category wise and customers feel comfort, entertainment and joy. The threat of misleading is removed by fixed costs. Retailers also avail various discounts and promotional schemes which are presented by the manufacturers. Retailers also get products of proper quality and of different varieties.

5. Employment opportunities: Today retail marketing is one of the largest employment generating industry. Employment in retail industry is provided to skilled, semi-skilled and also to unskilled persons which in turn also helps in the socio-economic development of the country.
6. Contract farming: The retail marketers today purchase most of the commodities from farmers thus reducing middlemen, which also provides proper costs to farmers and also sets proper price for consumers. To get proper amount of crops and vegetables most of the retail chains make proper contract with farmers.
7. Price war: Among the retailers increase in the number of retail outlets increases competition. Retailers also give various promotional schemes and various discounts, buy one get one free offer, special festival offer etc.
1. Reduces supply chain management: Most of the manufacturing companies and the big players of retail marketing directly come in contact with each other thus reducing many intermediary chains. Many promotional schemes are also given by the manufacturers for their products which are also beneficial for consumers.

8. CONCLUSION

Today there is very huge potential for the growth of organized retailing in India. By following some of the strategies organized retailing can tremendously reach each and every nook and corner. A proper systematized open communication should be established between functional departments. A balance should be maintained between brand building and promotion of the same. Non-marketing factors like gas prices, weather etc. should be avoided and new schemes should always be launched. 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. There is need of balanced approach to retail & govt. has to play a very vital role in shaping the future course. Though tradition retail has been performing a vital function in the economy, but it has to shed off its shortcomings and inefficiencies and this is actually happening. Thus, the organized sector is not only impacting the other sectors positively but also it has benefited its own competition i.e.

unorganized sector. So, organized sector becomes the growth mantra of Retail sector. In India modern retailing has miles to go. As compared to other developed countries the growth of modern formats has been much slower in India and the development of this sector has been restricted by the presence of regulatory as well as structural constraints.

REFERENCES

- [1] Michael .J. Baker, “The Marketing Book “, Fourth edition. Viva Books Private Ltd p.p639-667.
- [2] Michael R. Solomon .Elnora. W Stuart, 2005 “Marketing Real people, Real choices”, Pearson Education, Ltd.p.p563-564
- [3] SujaNair “Retail Management”, Himalaya Publishing House, p.p401-429.
- [4] Jim Dion& Ted Topping, “Retailing”, Jaico Publishing House, p.p127-150.
- [5] Levy Weitz. “Retailing Management “,Tata Mc Graw Hills Company Ltd New Delhi p.p472-502.
- [6] David Gilbert, “Retail marketing Management”, Pearson Education, New Delhi p.p45-50
- [7] Philip Kotler,2004 “marketing Management”, Pearson Education, New Delhi p.p544-545
- [8] Debajani Sahoo, Hari Govind Mishra, Organized Retail in India: A case study of Wal-Mart, Indian Journal of Marketing, Jnuary,2008, pp 35-36
- [9] The McKinney Quarterly-Tracking the growth of Indian Middle class, November 2007
- [10] Idea taken from Research Article titled, “Retailing in India: The Way Ahead” written by Binod Kumar Sinha, Faculty Member in ICFAI Business School Raipur
- [11] Dhanabhakym M, Shanthi A Indian Retail Industry – Its Growth, Challenges and Opportunities, 2010
- [12] <http://www.ukessays.com/essays/marketing/recent-trends-in-indian-retail-industry-marketing-essay.php>
- [13] <http://business.mapsofindia.com/india-retail-industry/emerging-trends-in-indian-organized-retail-sector.html>
- [14] <http://www.fibre2fashion.com/industry-article/7/697/organized-retailing-in-india1.asp>
- [15] <http://www.fibre2fashion.com/industry-article/7/697/organized-retailing-in-india1.asp>