

## RETAIL SCENARIO IN INDIA

**Umeshchandra M. Yadav**

Nirmala College of Commerce , Rani Sati Marg, Malad East, Mumbai .

**Abstract :** Retailing in India is one of the pillars of its economy and accounts for about 15 percent of its GDP. The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, India retail industry is one of the fastest growing industries in India, especially over the last few years.

**Key words:** Retailing , economy and accounts , Methodology.

### INTRODUCTION:-

Retailing in India is one of the pillars of its economy and accounts for about 15 percent of its GDP. The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, India retail industry is one of the fastest growing industries in India, especially over the last few years.

Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the customers, the industry is getting more popular these days and getting organized as well.

### OBJECTIVES:-

- To understand the importance of retail structure in India.
- To know the various benefits of retail marketing.
- To understand the prospects for growth in this sector.
- To study how this sector performed on growth and employment fronts in India.

### METHODOLOGY:-

The data is collected from secondary sources. It is of descriptive nature.

### Retail Structure in India:-

#### Prominence of Organized Retailers in Urban India:

The organized retailers are prominent only in urban areas, especially in metro cities, and Class I cities. The organized retailers do not operate in rural areas because of the scattered nature of Indian villages. For instance, more than 50% of Indian villages (out of total 6,40,000 villages) have a population of less than 500 people. Also, the organized retailers do not operate in smaller towns and cities because of lower demand and higher overheads.

#### Share of GDP and Employment:

Retail sector is the largest private sector accounting for over 10% of GDP. In India, the retail sector is the second largest employer after agriculture. It is estimated that the retail sector employs about 8% of the total employment in India.

**Share of Organised Sector:**

In India, the share of organized retail sector is increasing at a fast pace. In 2007, the share of organized retail was about 5%. According to A T Kearney research, the share of organized retail is expected to increase to over 20% in 2020. There are other research studies which point out that the organized retail will grow considerably by end of the current decade.

The share of organized retail will increase due to the growing urbanization in India. Since organized retail operates mostly in urban areas; growing urbanization will give a big boost to organized retail.

**Growth Rate of Retail Trade:**

According to the Global Retail Development Index (GRD) 2012 of A T Kearney – India remains a high potential market with annual retail growth of 20 per cent expected over the next five years. The Indian retail industry is pegged at US \$ 500 billion in 2012 and is expected to reach US \$ 1.3 trillion by 2020.

**FDI in Retail:**

On 14th September, 2012, the government of India announced the opening of FDI in multi brand retail, (upto 51%) subject to approvals by individual states. This decision has been welcomed by economists and the markets. However, this decision has caused protests in India especially by the opposition parties. On 20th September 2012, the Government of India formally notified the FDI reforms for single brand (100%) and multi brand retail (51%), thereby making it effective under Indian law.

**Technology:**

There is a growing trend towards technology use by retailers in India. Large retailers use technology for billing, inventory, security, and so on. Even the unorganized retailers are now using technology for weighing, billing, and even for inventory purposes.

**Training:**

The organized retail are restoring to formal training of the staff to improve their knowledge, attitude, skills and social behaviour. Also, the unorganized retailers are restoring to informal training to the staff so as to gain more customers and to improve the overall efficiency of the organisation.

**Schemes and Facilities:**

Indian retailers are coming up with innovative schemes to promote the sales. They come up with special seasonal offers. Some of the retailers have come up with innovative schemes in certain dates such as the Independence Day, Republic Day, and so on. Some of the retailers are maintaining customer profile and provide special loyalty incentives.

Also, the organized retailers provide good number of facilities to the customers in order to making the shopping experience more pleasurable. They provide hygienic washrooms, drinking water facility, food courts, good music, and so on.

**Major Organised Retailers in India:**

A good number of major organized retailers are operating in India. Some of the prominent one includes:

**The Tata Group with Westside, and Croma**

Pantaloon with over 450 stores across India, which was started by Future Group of Kishroo Biyani. A major stake in Pantaloon is sold to Aditya Birla Group in 2012.

Reliance: Reliance is one of the biggest players in Indian retail industry. More than 300 Reliance Fresh stores and Reliance Mart are quite popular in the Indian retail market.

AV Birla Group: AV Birla Group has a strong presence in Indian apparel retailing. The brands like Louis Phillipe, Allen Solly, Van Heusen, Peter England are quite popular. It's also investing in other

segments of retail.

## **PROSPECTS AND CHALLENGES IN INDIA**

### **PROSPECTS**

In India, the retail sector has bright prospectus due to the following reasons:

#### **High Growth Rate:**

The retail sector is expected to grow at about 15 to 20% in the next five years. Also, according to one study, India's trade is likely to be about US \$ 1.3 trillion by 2020 from the level of US \$ 500 billion in 2012. The high growth rate would definitely benefit the organized retailers as well as to the unorganized retailers.

#### **Increase in Disposal Income:**

There is huge potential for retail trade due to increase in disposable income, increasing urbanization and growing middle class.

India's middle class is likely to overtake US, China and Europe in terms of consumption in the years to come. According to one study, by 2020 India is likely to get the third rank of consumption behind USA and China and by 2030 India is likely to be number one in terms of total consumption followed by China and USA. The retail trade would benefit due to the increase in consumption expenditure.

#### **Foreign Direct Investment:**

India has already approved 100% FDI in single brand retail and 51% in multiple brand retail. This would mean that foreign retail giants may enter Indian retail space. They may enter into a joint venture with Indian retailers. The inflow of foreign capital would lead to expansion of the organised retail sector.

#### **Population Growth:**

India's population is second largest in the world after China. It is estimated that India would have the largest population by 2028. The increase in population in rural as well as urban areas would give a good boost to the growth of retail sector in India.

#### **Availability of Competent Manpower:**

India is likely to have a poor of competent manpower in the field of retail. Several management institutes and universities are offering courses in retail management, family business management and so on. The professional education would enable the retail sector to have competent manpower, which in turn would lead to its growth.

#### **Urbanisation:**

There is growing urbanization in India. In 1951, the urbanization was only 17% of the total population. In 2011, urbanization in India has increased to over 30%. The growth of urban population provides a good scope for organized retail sector in India.

#### **Changing Lifestyles and Consumer Behaviour:**

Due to increasing working population, comfortable life, travel and leisure are given importance. These key factors are growth drivers of retail sector in India which now boat of retailing almost all the preferences of life – apparel and accessories, appliances, electronics, cosmetics and toilets cries etc.

#### **E-Commerce:**

The concept of electronic commerce is gaining importance. Young customers are already transacting retail business on-line. The on-line shopping provides a lot of shopping convenience.

Therefore, e-retailing (e-tailing) is likely to get a good boost in the near future.

## **CHALLENGES**

### **Problem of Infrastructure:**

There is a problem of infrastructure especially roads, transport, warehousing, power supply and so on. The infrastructure facilities are lacking not only in rural areas but also in urban areas. Lack of infrastructure facilities creates problem of logistics, which may affect the growth of retail sector.

### **Restrictions on FDI:**

In India, there are restrictions on FDI in multiple brand retail. In 2012, the Central Govt. approved 51% in multi-brand retail. However, freedom is given to State Governments to implement the decision.

Several States in India, which are ruled by the current opposition parties, have opposed this move, and there is every possibility that some State Governments will not allow FDI in multi-brand retail. This decision on the part of State Governments to oppose FDI in multi-brand retail may affect the growth of retail sector in India, at least for time-being.

### **Lack of Trained Workforce:**

There is lack of trained workforce to manage the organized retail outlets. This problem may adversely affect the efficiency of the organized retail sector. However, in the past few years, several management institutes and universities have introduced retail management courses, and therefore, this problem may get solved. Also, corporate retail sector can provide specific training to the new recruits and improve the efficiency of the employees.

### **High Real Estate Prices:**

The growth of organized retail may get affected due to high real estate prices. In several cities across India, the real estate rates are abnormally high. For instance, the real estate rates in the city of Mumbai are one the highest in the world. This creates a problem for corporate to invest in organized retail.

### **Challenges from E-Commerce:**

There are going challenges from E-commerce to BAM (brick and mortar) stores. Due to the growth of internet facilities, increasing number of people, especially in the urban areas are aware of the benefits of on-line shopping.

The on-line shopping may create a big challenge to off-line stores (BAM Stores). However, this problem can be sorted out by going on-line and also manager their off-line retail business as well. Also, the BAM stores need to be proactive to come up with innovative ideas to promote their sales.

### **High Operating Costs for Organised Retailers:**

There are high operating costs for organized retailers, especially, in cities. The high operating costs are on account of salaries to staff, maintenance charges, electricity charges, high municipal tax, and so on. This problem may be resolved to a certain extent by making optimum use of facilities and manpower.

### **High Tax Rates to Corporate Retailers:**

The organized retail sector is subject to high corporate tax rates. The high corporate tax rate reduces considerably the net profit margin. This problem may be difficult to resolve. However, the corporate retail stores can come together and appeal the Govt. to reduce the tax rates, wherever possible.

### **Problem of Customer Retention:**

Retaining the customer is more of a challenge to retail units. Store loyalty is declining everywhere in the world and India is no exception. Customers are shifting store loyalties to get a feel of shopping at different stores. Given the increased amount of choices in terms of products and formats, customers are

demanding more for less from the retail stores.

Customers are demanding more choices, consistency in quality, convenience, and better service for less time, effort and money. To overcome this problem, there is a need on the part of retail outlets to come up with innovative ideas to promote and increase the sales from the loyal customers.

### **Technology:**

Newer technology is constantly being invented and utilized to gain competitive advantage. For example the Radio Frequency Identification Device (RFID) tags are replacing bar code devices. Therefore, the retail outlets must be geared to adopt latest technology to offer convenience to the customers and good image for the store.

### **Changing Perceptions of Customers:**

Retailing is perceived more and more as shopping experience and no merely buying of goods and services. This has brought additional challenge of enhancing shopping experience for the customer. For instance, kids zone can be set at the malls to keep kids busy while the parents shop. Also, malls must make available food courts to enjoy the food at the store, which would enhance the shopping experience.

### **Emergence of Value Shopper:**

An Indian customer, especially in urban areas, who was earlier considered to be price sensitive is now showing signs of being value-sensitive. The customers are willing to buy a product if it delivers value. The craze for premium goods has gone up considerably for middle and upper-middle class people.

Therefore, it is a challenge for retail stores to satisfy the value shopper.

### **Challenges for Unorganised Retailers:**

The challenges are faced not only by organized retailers but also by unorganized retailers. Average Indian customers prefer to shop where they get value for their money. They want to shop at cleaner environments. They want to enjoy the shopping experience provided by the organized retail sector. Therefore, nowadays, several customers are switching over from local kirana shops to super markets and malls. The unorganized retailers need to come up with survival strategies to face the competition from the organized retail sector.

## **RETAIL FRANCHISING**

Franchise is a contract between two parties from the same country or from different countries. Under franchising agreement, the franchisor agrees to transfer a package of rights and resources to the franchisee such as:

- Production requirement, including product ingredients.
- Standardized operating procedures.
- Patents, trade marks and technology
- Access to advertising and promotional materials
- Loans and financing, and
- General management assistance.

McDonanld's is a classic example of a corporation with franchise contracts around the world.

It is an agreement or a contract between two parties, where one party agreed to transfer its rights and resources to another party.

It is normally a long term contract, which can remain in force for several years.

The transferor gets royalty or payment in consideration of transfer of rights and resources from the transferee.

The franchise contract can take place between two parties from within the country or between two parties of two different countries.

A franchise usually covers a broader package of rights and resources as compared to licensing contracts. In licensing contracts, the transferor transfers limited rights and/or resources to the licensee such

as trade marks, patents, technology and managerial skills.

Franchising normally creates a new business. The franchisor normally selects competent and dedicated entrepreneurs to transfer rights and resources.

**Advantages of Franchising to the Franchisor:**

The franchisor gets royalty from the franchisee for the use of rights and resources.

The franchisor gets goodwill in the local as well as international markets.

This type of contract reduces burden on the franchisor to manage a number of outlets or stores in a number of areas spread across several states or countries.

It enables the franchisor to expand business across several countries with limited investment, as a major part of investment would be done by the franchisee.

It helps to face global competition with less effort and costs.

It enables the franchisor's country to earn foreign exchange due to royalties received by the franchisor, in the case of foreign contracts.

Advantages to the Franchisee:

This type of contract enables the franchisee to obtain a package of rights and resources from a famous franchisor, and as it improves goodwill of the franchisee.

The franchisee can have access to technology and other resources of the franchisor, which can help to improve efficiency of the franchisee's firm.

It leads to effective marketing due to the reputation of franchisor.

It helps to bring in professionalism in the franchisee's firm, as the franchisor may provide training to the franchisee's staff.

This type of contracts builds customer loyalty due to better facilities and services provided. This in turn helps to increase sales.

The franchisee can face the competition effectively, as he gets the advantage of the goodwill of the franchisor.

**Suitability:**

**The franchise contracts are suitable in respect of the following:**

Fast food restaurants such as McDonanld's Pizza Hut, etc.

Educational courses such as Computer Programming, Management Courses, etc.

Travel and Tour Services, as the expertise can be easily transferred.

**FDI IN RETAILING**

Retailing is the largest private sector industry in the world economy with the global industry size exceeding \$ 6.6 trillion, and a latest survey has projected India as the top destination for retail investors. To further the growth in the retail sector, Government has opened up 100% FDI in single brand retail outlets

Guidelines notified, require:

- Products to be sold should be of a 'Single Brand' only.
  - Products should be sold under the same brand internationally
  - Single Brand product-retailing would cover only products which are branded during manufacturing.
- In September 2012, Government of India has allowed 51% FDI in multibrand retail subject to approval by State Governments.

**Arguments in favour of FDI in Retail:**

Reduction in Wastages in Agriculture Produce: One problem is that a huge proportion of perishable agricultural output like fruits and vegetables is left to rot in the fields in the absence of cold storages and transport infrastructure, and becomes a dead loss to the economy. Clearly, what is needed is an efficient supply chain backed by improved infrastructure, cold storages, packing and transportation. And, the traditional system of distribution, ending with the mon and pop shops or the street-side vegetable seller, is just not capable of creating it.

Reduction in Price Disparity: Due to inefficiencies, there is a huge disparity between the price

which the producer gets and the price the customer pays – sometimes as high as 10 times. The organized retailers would be in a position to reduce the price disparity as they would directly purchase from the producers or manufacturers, and get bulk discounts. A part of the bulk discounts would then be passed on to the customers in the form of reduced prices.

The entry of the organised sector in retail trade is capable of mitigating, if not solving, the huge waste involved in the current system, simultaneously paying better prices to the producer and lower prices for the consumer.

**Impact on Employment:** As the FDI influence on the Indian retail sector sets in, the total size of the retail trade is expected to grow greatly in the coming years. It is estimated that a growth will be of 20% per annum in the retail sector over the next decade. This can have a positive impact on the economy in terms of increase in GDP growth as well growth in employment.

Moreover, Indian retail chains would get integrated with global supply chains since FDI will bring in technology, quality standards and marketing expertise, thereby, leading to new economic opportunities and creating more employment generation.

**Boost to Certain Sectors:** World Bank attributes the opening of the retail sector to FDI would be beneficial for India in terms of price and availability of products; as it would give a boost to food products, textiles and garments, leather products, etc. These sectors would benefit from large-scale procurement by international chains; in turn, creating job opportunities at various levels.

**Control of Inflation:** Industry trends for retail sector indicate that organized retailing has major impact in controlling inflation because large organized retailers are able to buy directly from producers at most competitive prices. Therefore, the organized retailers are in a position to cut down on costs, and consequently offer lower prices to the consumers, which in turn results in lower inflation.

**Innovation in Manufacturing:** Today, In India, FDI is assisting the manufacturers more than it is protecting the retailers. Because of a fragmented retail setup, Indian brand manufacturers for the last 100 years were not innovative.

Organised retailers compel manufacturers to look at every single process in their companies to see whether it adds value or not. Thus, retailers have made Procter & Gamble, Unilever, Nestle, and so on, a lot more efficient.

**Benefits to Farmers and Manufacturers:** Apart from consumers, farmers will also benefit from the retail expansion. Several states have allowed retailers to buy directly from farmers. The organized retailers are also dealing directly with companies without the involvement of middlemen or intermediaries. This ensures better prices to the farmers or manufacturers.

### CONCLUSION:-

Retail sector play very important role in Indian economy. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the customers, the industry is getting more popular these days and getting organized as well. Indian retailers are coming up with innovative schemes to promote the sales. There is a growing trend towards technology used by retailer in India. In urban area people are aware of benefits of online shopping. Apart from the consumer farmers give also benefit from the retail expansion. Today World Bank attributes the opening of retail sector to FDI would be beneficial for India in terms of price and availability of products. There for it leads to new economic opportunities and creating more employment generation.

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