

INDIAN RETAIL INDUSTRY: ITS GROWTH, OPPORTUNITIES AND CHALLENGES

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ABSTRACT

This paper provides detailed information about the growth of retailing industry in India, as retailing includes all the activities involved in selling goods or services directly to the final consumer for personal use. It includes every sale of goods and services to the final consumer. Thus purchase of a service such as reservation of railway ticket, consultancy of a physician, maintenance services of a plumber, carpenter, hair cut, dry cleaner etc. The scope of growth in the Indian retail market is mainly due to the change in the consumer's behavior. The new generations have preference towards luxury commodities which have been due to the strong increase in income, changing lifestyle, and demographic patterns which are favorable. The Indian retail sector is witnessing tremendous growth with the changing demographics and an increase in the quality of life of urban people.. It examines the growing awareness and brand consciousness among people. The paper includes growth of retail sector in India, strategies, strength and opportunities of retail stores, retail format in India, recent trends, and opportunities and challenges. It also highlights the challenges faced by the industry in near future.

Keywords: Retailing, Opportunities, Challenges, Retail Industry.

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INTRODUCTION

The retail industry is becoming one of the most competitive in India, with supermarket chains and malls mushrooming all over. People are making a beeline for shopping experience at Food World, Fabmall, Family mart, Big Bazaar, Forum, Shoppers' stop and the like, who are competing to woo them. Retailing includes all the activities involved in selling goods or services directly to the final consumer for personal or non business use. Retailing is the final stage in the distribution process. With the popularity of the internet, retailing is becoming popular using the website and a new form of e-tailing is also developing. Retailing is not restricted to tangible products. It covers services also. Airline travel, dry-cleaning, training programmes etc. In other words, retailing is the sale of goods and services to the ultimate consumer, personal, family or household use. Thus retailing involves more than selling tangible products. It includes every sale of goods and services to the final consumer. Thus purchase of a service such as reservation of railway ticket, consultancy of a physician, maintenance services of a plumber, carpenter, hair cut etc..

India is a land where we love to shop. No, we aren't the branded shoppers, who stock up on groceries for the rest of week. Instead, we choose to buy on an everyday fresh and buy on an everyday basis. Yet, with travel expanding horizons, customers have escalating expectations. Leading retailers are trying to adapt to new retail concepts and new business ideas. Research by the Aditya Birla Group claims "India is a trillion-dollar economy. Of this, retail accounts for about 40%. Of that, 60% is spending on food and groceries. Of that, about 60% is rural and 40% is urban.

GROWTH OF RETAILING IN INDIA:

Retailing has been growing at a fast pace in India. Of late, Indian retailing is also gaining sophistication, almost at par with international standards. The Government of India's Public Distribution System was the starting point of organised retailing in the country, which continues as 'fair price shops' or 'ration shops', especially for essential goods like sugar, rice, wheat. The domestic retailers have placed two demands to be met by the Government of India before throwing the sector open to global players fully. The first is their demand for according the 'industry status' to the retail sector and the second is a five-year time span to be able to build economies of scale so as to withstand the foreign competition. Indian retailers also fear that the

entry of foreign retail firms like Wal-Mart will destroy the small domestic retail/wholesale networks and render millions they employ. If foreign retail firms adversely affect the small grocers, so would the domestic ones. In February 2006, the government of India announced its policy for FDI in retail sector.

According to the announcement, FDI up to 51 per cent in retail trade would be subject to the following conditions.

1. Products to be sold should be of a single brand only
2. Products should be sold under the same brand internationally
3. Single brand product retailing would cover only products which are branded during manufacturing.
4. FDI would be allowed only with prior approval of the Government, conforming to prescribed norms and conditions
5. Processing will be done by the dept. Of industrial policy and promotion for government approval

The guidelines would, however, ensure that the food and grocery segment of Indian retailing would not face competition from capital because this sector in India tended to be multi-stock keeper units and multi-brands.

Retail and real estate are the two booming sectors of India in the present times. And if industry experts are to be believed, the prospects of both the sectors are mutually dependent on each other. Retail, one of India's largest industries, has presently emerged as one of the most dynamic and fast paced industries of our times with several players entering the market. Accounting for over 10 per cent of the country's GDP and around eight per cent of the employment retailing in India is gradually inching its way toward becoming the next boom industry.

SHOULD THERE BE FOREIGN DIRECT INVESTMENT IN THE RETAIL SECTOR?

THE PROS AND CONS:

- **Employment Opportunities**

PRO: jobs will be created for processing, sorting, marketing, logistics and front-end retail

CON: international experience shows supermarkets invariably displace small retailers. Jobs in the manufacturing sector will be lost because international retail makes purchases internationally. Eventually , there wil be a redistribution of jobs with some drying up like that of (middle men)and some new nes sprouting.

- **Farmers will get fair trade:**

PRO: FDI in retail could help farmer's secure remunerative pries by eliminating explorative middlemen.

CON: This still remains questionable

- **Supply chains:**

PRO; FDI can ensure supply chain efficiencies. This could bring down food inflation as perishables will not be wasted in huge quantities.

CON: the argument that only foreign players can create the supply chain for farm produce is bogus.

INDUSTRY ANALYSIS OF THE INDIAN RETAIL SECTOR

Modern retailing has entered India in form of malls and huge complexes offering shopping, entertainment, leisure to the consumer as the retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to specialty chains. However, kiranas still continue to score over modern formats mostly due to the convenience factor i.e. near to their house. This organized segment typically comprises of a large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring system. It's no longer about just stocking and selling but about efficient supply chain management, developing vendor relationship quality customer service, efficient merchandising and even the labour class is also in the working process timely promotional campaigns. The modern retail formats are encouraging development of well-established and efficient supply chains in each segment ensuring efficient movement of goods from farms to kitchens, which will result in huge savings for the farmers as well as for the nation. The government also stands to gain through more efficient collection of tax revenues. Network marketing has been growing quite fast and has a few large players today. Gas stations are seeing action in the form of convenience stores, ATMs, food courts and pharmacies appearing in many outlets. In the coming years it can be said that the hypermarket route will emerge as the most preferred format for international retailers stepping into the

country. Estimates indicate that this sector will have the potential to absorb many more hypermarkets in the next four to five years.

List of retailers that have come with new formats:

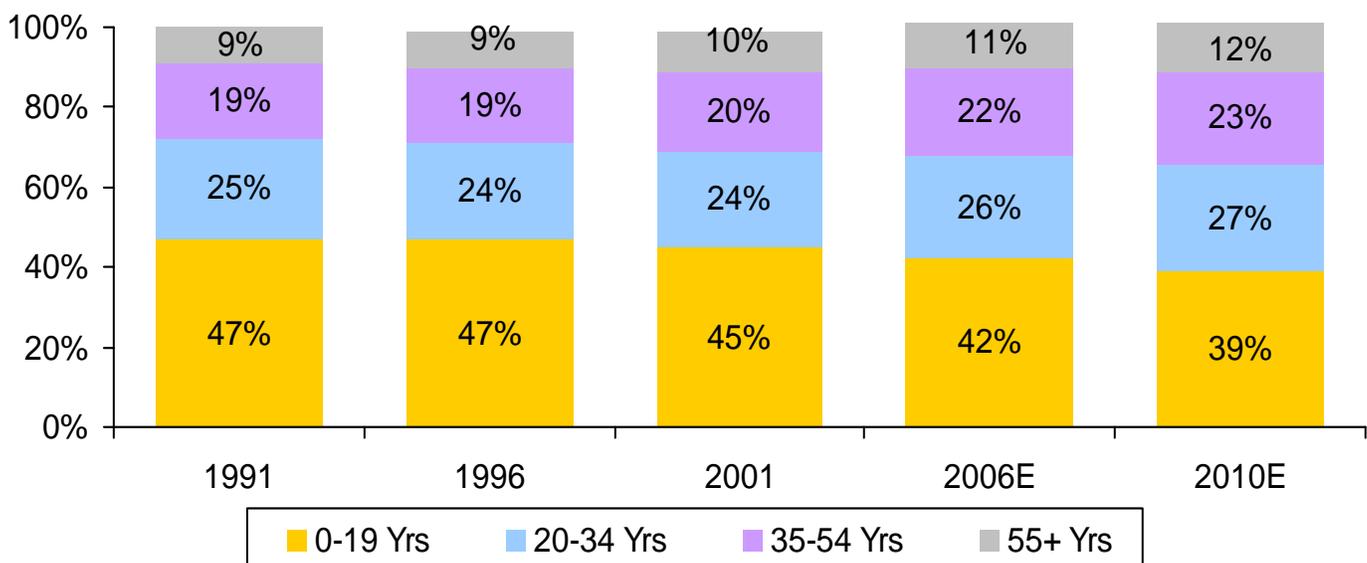
Retailer	Current Format	New Formats
Shoppers' Stop	Department Store	Quasi-mall
Crossword	Large Bookstore	Corner shop
Piramyd	Departmental Store	Quasi-mall, Food retail
Pantaloon	Own brand store	Hypermarket
Subhiksha	Supermarket	considering moving to self service
Globus	Department Store	Small fashion stores

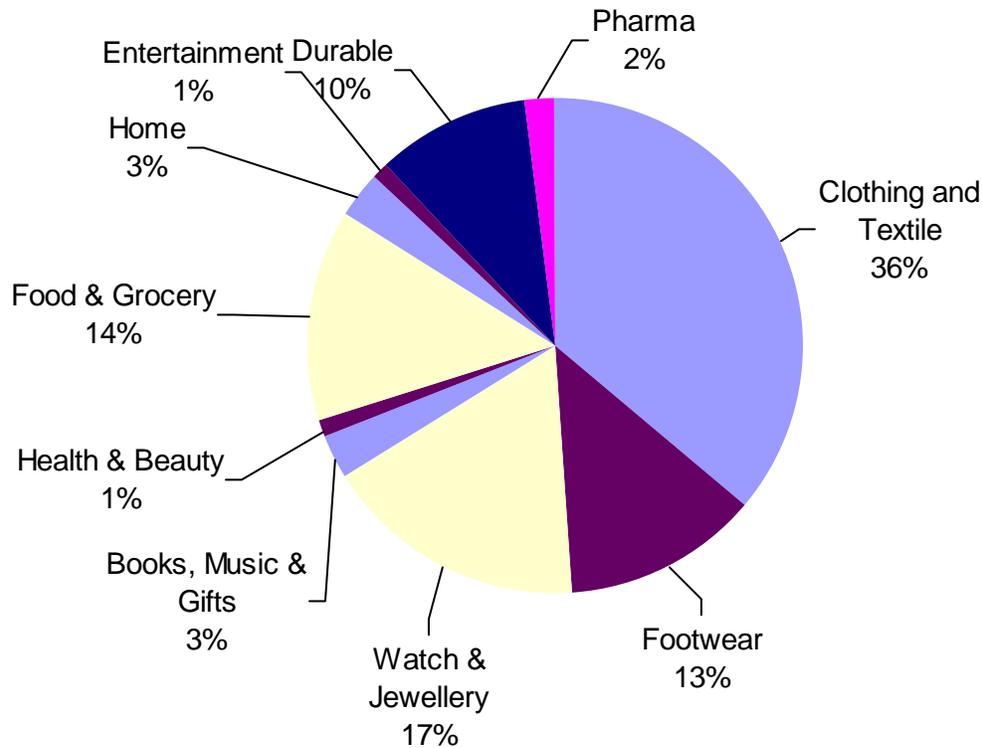
Traditionally, the kirana retailing has been one of the easiest ways to generate self-employment, as it required minimum investment in terms of land, labour and capital. These store are not affected by the modern format of retailing. In order to keep pace with the modern formats, kiranas have now started providing more value-added services like stocking ready to cook vegetables and other fresh produce. They also provide services like credit, phone service, home delivery etc. The organized retailing has helped in promoting several niche categories such as packaged fruit juices, hair creams, fabric bleaches, shower gels, depilatory products and convenience and health foods, which are generally not found in the local kirana stores. Looking at the vast opportunity in this sector, big players like Reliance has announced its plans to become the country's largest modern retainers by establishing a chain of stores across all major cities. Apart from metro cities, several small towns like Nagpur, Nasik, Ahmedabad, Aurangabad, Sholapur, Kolhapur and Amravati has seen the expansion of modern retails. Small towns in Maharashtra are emerging as retail hubs for large chain stores like Pantaloon Retail because many small cities like Nagpur have a student population, lower real estate costs, fewer power cuts and lower levels of attrition. However, retailers need to adjust their product mix for smaller cities, as they tend to be more conservative than the metros. In order for the market to grow in modern retail, it is necessary that steps are taken for rewriting laws, restructuring the tax regime, accessing and developing new skills and investing significantly in India.

India is rated as the most attractive retail markets

Country	Country Risk	Market	Market	Time	Rank
	25%	25%	30%	20%	
India	62	34	91	80	1st
Russia	52	58	71	92	2 nd
China	68	40	53	90	4 th
Turkey	51	56	66	65	9
Thailand	64	41	59	71	12
Malaysia	70	49	58	40	18
Egypt	51	35	85	30	25
Brazil	52	56	57	20	29
India's	24th	14th	1st	7th	1st

Socio demographic factors will lead to faster growth of organized retail in India:





RECENT TRENDS IN RETAILING IN INDIA:

Nanz in North India, Nilgiris in the South, Pantaloon in the East and Crossroad in the West were the pioneers of the retail revolution in India. Nanz faced several obstacles (See Case Study) in their business and had to finally down their shutters. Nilgiris, due to some strange reason, did not see any logic to expand beyond the southern frontiers. Pantaloon went to scale up and become bigger and bigger to form the Future Group, that is now omnipresent in almost all formats right from small groceries to e-tailing. Crossroads in Mumbai imparted some valuable lessons to their parent, the Piramyd Group, who has since then gone on an expansion drive with other formats of retailing in different cities. The big players in Indian retail landscape now are the Future Group, Shoppers Stop, Westside, Subiksha and RPG Spencer. The newcomers who are knocking at the gates are Reliance Retail, Bharti Walmart and Aditya Birla Trinethra. Here, we intend to do a brief profiling of the major players in order to understand the retail business in a better manner.

The Future Group

The Future Group, which was earlier known as PRIL (Pantaloon Retail India Limited) began as a trouser manufacturer in the mid 1980s. The Future Group is divided into six verticals – Future Retail, Future Capital, Future Brands, Future Space, Future Media and Future Logistics. The Future Group started operations in the mid 1987s by incorporating the company as Manz Wear Private Limited. The company went on to manufacture ready made trousers under the “Pantaloons” brand name. It came out with a public issue in 1991 and later changed their name to Pantaloon Fashions (India) Limited (PFIL).



2 Shoppers Stop

Shoppers' Stop, promoted by the real estate group K Raheja, was one of the first movers to have set up a large retail outlet in New Delhi with international ambience. Shopper's Stop Ltd now has a considerable presence all over the country with over 7 lakh square feet of retail space and stocks over 200 brands of garments and accessories. The stores are spread all over India with presence in Mumbai, Delhi, Bangalore, Hyderabad, Jaipur, Pune, Kolkata, Gurgaon, Chennai & Ghaziabad.



The stores offer a complete range of apparel and lifestyle accessories for the entire family. From apparel brands like Provogue, Color Plus, Arrow, Levi's, Scullers, Zodiac to cosmetic brands like Lakme, Chambor, Le Teint Ricci etc., Shoppers' Stop caters to almost every lifestyle need.

3 Trent – Westside

Established in 1998, Trent operates some of the nation's largest and fastest growing retail store chains. A beginning was made in 1998 with Westside, a lifestyle retail chain, which was followed up in 2004 with Star India Bazaar, a hypermarket with a large assortment of products at the lowest prices. In 2005, it acquired Landmark, India's largest book and music retailer. In a recently signed deal, Trent has agreed to anchor 12 malls set up by DLF Universal Ltd across the country, at its Westside, Landmark and Star India Bazaar outlets. This amounts to about 27 locations, totaling to about a million square feet of space. Trent retails garments and household accessories for men, women and children, cosmetics and perfumes at Westside, food, beverages, health and beauty products, vegetables, fruits, dairy products, consumer electronics and household items at Star India Bazaar and books, music and stationery at Landmark. Westside has 25 outlets across 17 cities in India offering a variety of designs and styles in garments, footwear and accessories, as table linens, artifacts, home accessories and furnishings. Well-designed interiors, sprawling space, prime locations and coffee shops enhance the customers' shopping

experience. Trent also runs another chain of retail stores called Star India Bazaar. Launched in 2004, Star India Bazaar provides a large assortment of high quality products made available at the lowest prices coupled with a unique shopping experience.



4. Piramyd

Piramyd Retail is part of the Piramal Group, which has presence in diverse sectors spanning Pharmaceuticals, Textiles, Real Estate, Engineering, Family Entertainment and Retail with manufacturing operations in 19 locations across five states and employing over 18,000 people.

The promoters launched the apparel business in 1999 under Piramyd Retail and Merchandising Pvt. Ltd. (PRMPL) while its food; home & personal care businesses (FHPC) were housed under Crossroads Shoppertainment Pvt. Ltd. (CSPL). As the apparel and food businesses individually reached a critical mass the management merged the two companies into Piramyd Retail Ltd. due to distant synergies in two businesses in March 2005. Pyramid also has a smaller format of stores called TruMart that caters to Food and Personal Care products. Piramyd Retail currently has 5 Mega stores and 8 TruMart stores mainly in Maharashtra . The company plans to increase these numbers to 17 Mega stores and 69 TruMarts by 2008. The floor space is expected to be 5 times

on successful expansion. The FHPC (Food & Personal Care) business is volume driven while the Lifestyle store is a margin driven business. Piramyd Retail plans to increase the contribution of private labels from existing 7% to 18-20% of the revenues by 2010. Gross margins from private labels are over 40% and hence the company is planning to increase this business. Most of the stores are on the lease format and the company is prone to higher lease rentals due to the overall increase in real estate prices. This may bring the profit levels down substantially. Piramyd Retail did have a first mover advantage in many locations but it has actually failed to capitalise over this advantage. Its competitors like Pantaloon, Shoppers Stop and Trent gained larger benefits of their far more aggressive business & marketing strategy in the retail space.



5. Subiksha

The Chennai based Subiksha grocery chain runs around 200 outlets all over the country and it's current turnover stands at Rs 224 crores. Their target customer is the middle income value conscious buyers. The main aim of Subiksha is to offer a functional and transactional shopping

experience. This retail chain has no qualms and spends almost no money on creating a pleasant shopping experience, and all stores are non-air conditioned. There is no false roofing or sparkling vitrified tiles on the floor. A few years ago, Subiksha did not even offer shoppers self service. The customer had to place an order at a computerized teller and the goods were billed and delivered after cash is collected. Customers had to bring their own carrybags or pay to buy them from the store. Subiksha even attempted to charge the customers for home delivery. However, now Subiksha has slightly tweaked their business model in order to create a better appeal to customers who were defecting to the competitors. The store formats are still small and non-airconditioned. But customers have the option to pick from shelf spaces. They also get shopping bags and free home delivery. But the selling USP(unique selling proposition) remains the same -- - Subiksha tries to be as close to the customer as possible and offers the lowest price and huge savings in comparison to competitors. It's slogan happens to be --- bachat mera adhikar hain (saving is my fundamental right).

6. RPG Spencer

RPG's Spencer presently has 125 stores across 25 cities covering a retail trading area of half a million square feet and with a clientele of 3 million customers a month. Spencer's has a national footprint with seven hypermarkets, three supermarkets and 70 daily use outlets, called Dailies. All the newly opened Spencer's stores stock every conceivable product that is required by a household on a daily basis. At Spencer's Daily shoppers can get fresh fruits, vegetables, fast-moving consumer goods, household items, groceries, with regular offers and discounts.

7. Reliance Retail



On June 26, 2006, Mukesh Ambani, Chairman and Managing Director, Reliance Industries Limited, announced a Rs 25,000-crore investment in the retail sector. Reliance Retail started its retail operation with “Reliance Fresh”, a grocery store that sells vegetables, fruits, personal care items and other food products. Soon, these retail outlets will also be selling apparel and footwear, lifestyle and home improvement products, electronic goods and farm implements and inputs. They will also offer products and services in energy, travel, health and entertainment. In addition to this, partnerships would be developed to bring the best of global luxury brands to India as well. Reliance Retail plans to extend its footprint to cover 1,500 Indian cities and towns with outlets of a varied format, a mix of neighborhood convenience stores, supermarkets, specialty stores and hypermarkets. Reliance also plans to open restaurant outlets, financial services marts and tourism counters within its stores. Mukesh Ambani’s ultimate ambition seems to be to create the Indian equivalent of Wal-Mart by scaling up the business to unprecedented heights to reach every nook and corner of the country. With its retailing venture, Reliance expected a revenue

target of US \$20 billion through its retail operations by 2010. Over a span of five years, RRL expects a 20% return-on-investment. The first store christened “Reliance Fresh” opened in November 2006 at Hyderabad. Within a few months they have now opened stores in Mumbai, Pune and Ahmedabad and plans foray into other cities on a rapid scale.

8. Bharti Wal-Mart



Bharti Retail (Pvt.) Ltd. unveiled the roadmap for its retail venture on 19th February, 2007 envisaging an investment of \$2.5 billion with expectation of revenue of \$4.5 billion (about Rs. 20,000 crore) from this business by 2015. The first retail outlet is expected to open somewhere in the month of August .Bharti’s plan is to invest \$2.5 billion by 2015 and open stores across all major cities. This investment would be only for setting up front-end stores. The modalities for its back-end linkage, including its joint venture with the world's largest retailer Wal-Mart, are in the process of being worked out.A high-level team from Wal-Mart was visited India in the later part of February to work out the details of the back-end chain. While Bharti would manage front-end

of the retail venture, Wal-Mart would be involved in the back-end, including logistics, supply chain and cash-and-carry, he added.

9. Aditya Birla – MORE



The Aditya Birla Group is India's first truly multinational corporation. Global in vision, rooted in values, the Group is driven by a performance ethic pegged on value creation for its multiple stakeholders. A US\$ 24 billion conglomerate, with a market capitalization of US\$ 23 billion and in the League of Fortune 500, it is anchored by an extraordinary force of 100,000 employees belonging to over 25 different nationalities. Over 50 per cent of its revenues flow from its operations across the world.” Our mission is to change the way people shop. We will give them more.” says Mr. Kumar Mangalam Birla, Chairman, Aditya Birla Group. The more. for you advantage: more. promises a world-class pleasurable shopping experience to Indian consumers in their very own neighborhood. more. Quality, more. variety, more. convenience and more. value are the four delivery cornerstones of the more. chain of supermarket stores.

VISHAL RETAIL :

Vishal is one of fastest growing retailing groups in India. Its outlets cater to almost all price ranges. The showrooms have over 70,00 products range which fulfills all your household needs, and can be catered to under one roof. It is covering about 1282000 sq. ft. in 18 state across India. Each store gives you international quality goods and prices hard to match. The cost benefits that is derived from the large central purchase of goods and services is passed on to the consumer. What started as a humble one store enterprise in 1986 in Kolkata(erstwhile, Calcutta) is today a conglomerate encompassing **51** showrooms in **39** cities. India's first hyper-market has also been opened for the Indian consumer by Vishal.



The **Vishal** stores offer affordable family fashion at prices to suit every pocket.

10.METRO – CASH & CARRY INDIA

METRO Group today, is the third largest trading and retailing group in the world. The company employs over 2, 50,000 staff in 30 countries. In the year 2005 METRO Group had generated sales of over €55.7 billion; 53% of total sales came from outside Germany. METRO Cash & Carry started operations in India in 2003 with two Distribution Centres in Bangalore. With this METRO introduced the concept of Cash & Carry to India. These Centres offer the benefit of quality products at the best wholesale price to over 150,000 businesses in Bangalore. METRO offers assortment of over 18000 articles across food and non food at the best wholesale prices to business customers such as Hotels, Restaurants, Caterers, Food and Non-food Traders, Institutional buyers and professionals. METRO's Cash & Carry business model is based on a Business to Business (B2B) concept and focuses on meeting all the needs and requirements of business customers. It is a modern format of wholesale trading, catering only to business customers.



11.Viveks- The Unlimited Shop



Vivek Limited is a professionally managed public limited company carrying three retail brands - Viveks, Jainsons, Premier and continuously adding to the formidable strength of 1000 employees. Vivek Ltd is the largest consumer electronics & home appliances retail chain in India. Viveks popularized several brands by creating visibility and have the distinction of being market leaders and trendsetters with continuous support from the principal companies. Viveks evolved its strategies to suit the larger scene where there was a stigma attached to borrowing. Very few hire purchase options were available and hence Viveks started Vivek Hire Purchase and Leasing Ltd to finance consumer durables, which enhanced the core retailing business also. Viveks streamlined the marketing and advertising activities and shopping ambience was improved.

CHALLENGES AND OPPORTUNITIES

Retailing has seen such a transformation over the past decade that its very definition has undergone a sea change. No longer can a manufacturer rely on sales to take place by ensuring mere availability of his product. Today, retailing is about so much more than mere merchandising. It's about casting customers in a story, reflecting their desires and aspirations, and forging long-lasting relationships. As the Indian consumer evolves they expect more and more at each and every time when they step into a store. Retail today has changed from selling a

product or a service to selling a hope, an aspiration and above all an experience that a consumer would like to repeat. For manufacturers and service providers the emerging opportunities in urban markets seem to lie in capturing and delivering better value to the customers through retail. For instance, in Chennai CavinKare's LimeLite, Marico's Kaya Skin Clinic and Apollo Hospital's Apollo Pharmacies are examples, to name a few, where manufacturers/service providers combine their own manufactured products and services with those of others to generate value hitherto unknown. The last mile connect seems to be increasingly lively and experiential. Also, manufacturers and service providers face an exploding rural market yet only marginally tapped due to difficulties in rural retailing. Only innovative concepts and models may survive the test of time and investments. However, manufacturers and service providers will also increasingly face a host of specialist retailers, who are characterized by use of modern management techniques, backed with seemingly unlimited financial resources. Organized retail appears inevitable. Retailing in India is currently estimated to be a US\$ 200 billion industry, of which organized retailing makes up a paltry 3 percent or US\$ 6.4 billion. By 2010, organized retail is projected to reach US\$ 23 billion. For retail industry in India, things have never looked better and brighter. Challenges to the manufacturers and service providers would abound when market power shifts to organized retail.

CONCLUSION

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. 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 in changing its way towards becoming the next boom industry.

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