

Future Prospects of Indian Retail Industry in India

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ABSTRACT

The Indian government does not recognize retail as an industry. In India 98 percent of the retail sector consists of counter-stores and street-vendors, with no large players, inadequate infrastructure and a small affording population that believed in saving rather than spending, Indian retail never attracted the interest of large corporations. The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. India is the world's fifth-largest global destination in the retail space. The Boston Consulting Group and Retailers Association of India published a report titled, 'Retail 2020, Retrospect, Reinvent, Rewrite', highlighting that India's retail market is expected to nearly double to US\$ 1 trillion by 2020 from US\$ 600 billion in 2015, driven by income growth, urbanisation and attitudinal shifts.

Key Words: - Retail, Prospects, Organized Sector, Vendors and Indian Industry

Introduction

Indian retail has been a traditionally unorganized sector, dominated by counter-stores and street vendors. While retail employs a large sector of the population, most of these people are uneducated, unskilled individuals that regard retail as the preferred career alternative to agriculture. They never had the means nor will to develop the sector or expand their business. Retail never enjoyed the support of the Indian consumer. A miserly population that barely had the means to make end meet never treated shopping as a form of leisure. While individual retailers saw small gains, lack of infrastructure, an unattractive Indian consumer and absence of regulation never provided the scale that retail giants could capitalize on.

Today the retail industry has witnessed a remarkable transformation. The country's staggering economic growth of around 8 per cent over the last 2 years has resulted in major shifts in the Indian class structure with higher incomes leading to the growth of the Indian middle-class. This is a middle-class that is aware of the standards of living in other countries thanks to exposure through the media and internet. Unlike their forefathers they have decided to adopt a Spending approach to improve their standard of living rather than saving approach. With an estimated 400 million shoppers and growing, organized Indian retail's target population is larger than that of the entire United States. Voted the most attractive retail destination in the world for two years in a row, India is expected to witness 7-8 per cent growth in its retail sector over the next few years.

Recognizing the short-term and long-term growth of retail in India, a number of domestic business giants have entered the retail industry or are planning to do so in the near future. Some like Pantaloon Retail, Shopper's Stop and Pyramid Retail have been in the industry for a decade. Reliance Retail Ltd. (RRL), Birla, and Bharti have just entered and opened up a number

of stores across the country. In fact retail in India has also attracted global giants like Wal-Mart who have also indicated their interest in the sector by forming a Joint Venture with Bharti. IKEA have also announced to enter in Indian market. Each of these domestic and international retail giants have or will introduce a number of modern retail formats like malls, hypermarkets and supermarkets. Initial consumer response to these novelties in the retail sector has been very promising and as the middle-class continues to grow, organized retail in India is sure to see large returns. In fact, organized retail is growing at a staggering 35 per cent per year.

As organized retailers enter the Indian market, however, they must be mindful of the unique status of retail in the country. Retail in the country has been dominated by millions of unorganized retailers who have used consumer proximity and home-delivery as their operating ideals to cater to the Indian consumer that has become accustomed to this convenience. Unorganized retail has both shaped the mentality of the Indian consumer and been shaped by it. As of 2015 retail contributed 39 per cent of India's GDP, but even with this, the percentage of retail in the organized sector is only a measly 6 per cent. These counter-stores and street vendors might seem small fish in a retail industry that is soon to be dominated by giants like Pantaloon and Reliance. Yet, they cater to a different set of preferences of the Indian consumer and have traditionally survived on low turnover and thin margins. Individually they are a minor factor in the retail plans of any giant organized retailer but collectively they represent the historic state of retail in India that is so deeply intertwined in the economy of the country and the psyche of the Indian consumer that co-existence with them is a better policy rather than competition.

Table

Journey of Organized Retail in India

| S.No. | Year | Growth | Function |
|-------|------|--------------|--|
| 1 | 2000 | First Phase | Entry, Growth, Expansion, Top line focus |
| 2 | 2005 | Second Phase | Range, Portfolio, Former options |
| 3 | 2008 | Third Phase | End to end supply chain management, Backend operation, Technology, Process |
| 4 | 2011 | Fourth Phase | M&A, Shakeout, Consolidation, High investment |

Source: A Report by Ernst and Young for IBEF, www.ibef.org

As mentioned in table, India has started emerging as a new market for all the global players because of changing demand and growing economy. The economy is one of the biggest magnetic factors which are piling every major retail player outside this economy to enter and get the biggest possible bite of the cake as the cake called Indian market is the most tempting one today. The booming economy itself is not just an invitation but also is creating a necessity for the country to get some major players in the country to serve the demand. The economy of India is a growing economy in every aspect so even the demands are growing.

Retail in India - The Past, Present and Future

Before the decade of eighties, India with hundreds of towns and cities was a nation striving for development. The evolution was being witnessed at various levels and the people of India were learning to play different roles as businessmen and consumers.

Retail-which literally means to put on the market, is a very important aspect of every city. Without a well-organized retail industry we would not have our necessities and luxuries fulfilled. Be it our daily groceries or fashion accessories and everything in between, retail

industry brings us the blissful experience of shopping. Though organized retailing industry began much earlier in the developed nations, India had not actively participated. However with its vast expanse and young population, India in the 21st century emerges as a highly potential retail market. The journey of retailing in India has been riveting and the future promises further growth. Here is a complete picture deciphering the past, present and future trends of Indian Retail Market.

Retail in India Past Scenario

Before the decade of eighties, India with hundreds of towns and cities was a nation striving for development. The evolution was being witnessed at various levels and the people of the nation were learning to play different roles as businessmen and consumers. The foundation for a strong economy were being laid, youth were beckoning new awareness in all spheres. And this brought in an opportunity for retail industry to flourish. First in the metros and major cities later to impact sub urban and rural market as well.

Retailing in India at this stage was completely unorganized and it thrived as separate entities operated by small and medium entrepreneurs in their own territories. There was lack of international exposure and only a few Indian companies explored the retail platform on a larger scale. From overseas only companies like Levi's, Pepe, Marks and Spencer etc. had entered targeting upper middle and rich classes of Indians. However as more than 50 percent population was formed by lower and lower middle class people, the market was not completely captured. This was later realized by brands like Big Bazaar and Pantaloons who made their products and services accessible to all classes of people and today the success of these brands proves the potential of Indian retail market.

A great shift that ushered in the Indian Retail Revolution was the eruption of Malls across all regional markets. Now at its peak, the mall culture actually brought in the organized format for Retailing in India which was absent earlier. Though malls were also initially planned for the higher strata, they successfully adapted to cater to the larger population of India. And it no wonder, today Malls are changing the way common Indians have their shopping experience. However there is still great scope for enhancing Indian mall culture as other than ambience and branding many other aspects of Retail Service remains to be developed on international standards.

To your surprise there was not a single mall in India a decade before and just a few years ago only a handful of them were striving, today there are more than 50 malls across different cities and 2 years from now around 500 malls are predicted to come up. Indeed this shows a very promising trend ahead, however before taking a leap into the future of Retail in India, let's see what the Indian retail Industry is currently occupied with.

Retail in India Present Scenario

Organized Retail in India refers to the modern retail formats like supermarkets and hypermarkets prevalent in most developed countries. This form of retail accounts for a painfully low 2 per cent of the retail industry, but is growing at a healthy 35 per cent and is expected to cross the INR 1000 billion mark by 2020. Organized retail remained a dormant sector largely due to the lack of infrastructure for large-scale retail, absence of product variety and a conservative Indian consumer. Today the flood of products in the market coupled with a wealthier, more informed Indian consumer have created the atmosphere for the entry of organized retail to tap into the \$320 billion Indian retail industry.

At present the Retail industry in India is accelerating. Though India is still not at an equal pace with other Asian counterparts, Indian is geared to become a major player in the Retail Market. The fact that most of the developed nations are saturated and the developing ones still not prepared, India secures a great position in the international market. Also with a highly diverse demography, India provides immense scope for companies bringing in different products targeting different consumers.

According to the Global Retail Development Index, India is positioned as the foremost

destination for Retail investment and business development. The factor that is presently playing a significant role here is the fact that a large section of Indian population is in the age group of 20-34 with a considerably high purchasing power; this has caused the increase in the demand in the urban market resulting in consistent growth in the Retail business.

And though the metros and other tier 1 cities continue to sustain Retail growth, the buzz has now shifted from these great cities to lesser known ones. As the spending power is no longer limited to metros, every tier 2 city in the country has good market for almost every product or service. Due to this, tier 2 cities like Chandigarh, Coimbatore, Pune, Kolkatta, Ahmedabad, Baroda, Hyderabad, Cochin, Nagpur, Indore, Trivandrum etc. provide a good platform for a brand to enter Indian market.

However there are a few precautions for every brand that explores Indian market. As Indian consumers are very curious and have a broad perspective, they respond well to a new product or concept and there are very fair chances of a brand surviving well, but every Indian consumer be it an urbanite or a small town dweller needs a feeling of value for money. Although labeled as tight fisted, Indian consumers are great spenders once they realize that they are getting value for their money. Also new product /service concepts from the western world are better adopted first by the urban Indians, the smaller markets respond well to the need based retailing rather than luxury concepts. As the Indian retailing is getting more and more organized various retail formats are emerging to capture the potential of the market.

- Mega Malls
- Multiplexes
- Large and small supermarkets
- Hypermarkets
- Departmental Stores are a few formats which
flourishing in both big and small regional Markets

As the major cities have made the present retail scenario pleasant, the future of the Indian Retailing industry lies in the rural regions. Catering to these consumers will bring tremendous business to brands from every sector. However as the market expands companies entering India will have to be more cautious with their strategic plans. To tap into the psyche of consumers with different likes and dislikes and differing budgets a company has to be well prepared and highly flexible with their product and services. In this regard focusing on developing each market separately can save a brand from many troubles.

Indian Retail Industry - A Promising Future for the Investments

Retail industry in India is greatly fragmented comparing to the developed and other developing countries. This presents enormous prospective for the structured retail industry to flourish throughout the country, as the market for the final product is huge. Retail industry is largely led by private companies. The distribution for fast-moving consumer products includes many layers like carrying and forwarding agencies, distributors, wholesalers, stockiest and retailers.

The Indian retail environment has attained \$ 210 bn quiche, witnessing a strong development pace of five percent per year (according to a latest survey by Price Waterhouse Coopers). As per the estimation 200 malls, presenting additional 50 mnsqft of retail space will be ready in next two years. Existing retail space in 160 malls is nearly 32 mnsq ft. Organized retailing now accounts for three percent out of the total retailing, however is predicted to extend to 10 percent by the year 208. In other means, organized Indian retail sector would triple its share of the total market within the coming four years, generating new eight million jobs, in addition to the 21 million jobs that are already created by retail sector. As per the estimate, the current retail business witnesses more than 12mn retail outlets, which include all shapes and formats. The analysts foresee bright future of the retail sector. A huge number of shopping malls, nearly 100, have come up in the recent past, generating 20 mnsq ft. retail space, extending more space of about 12 mnsqft to it. Nearly 60 malls are on the verge of completion and may be operational

by the end of current financial year. A forecasted number of nearly 200 malls, in a move to make additional 50 mnsqft of retail space, will be completed within the next two years.

According to analysis by KSA Technopark, India has lowest per capita retail space accessible around the globe. The study depicts that India require generating at least 110 mnsqft of additional retail space a year for many years, only to meet the demand generated on account of a continued GDP growth rate of nearly 6 percent. Hitherto, the Central Government as well as State Governments and local municipals have failed to match steps with drag on the economy of an incompetent retail sector. This space crisis is leading to a condition, in which prime locations demand extremely high rates.

To make India's emerging retail market open to foreign direct investment (FDI) has been on the Government agenda since long time. A number of transformations and practices were being done, but the sources disclosed that the policy, which is under finalization, is such that FDI in the retail market would lead towards the rear connections of manufacturing and production and not only set aside to open of retail stores of global and imported brands.

The global retail giants like Wal-Mart, Gap, Tesco, Versace, K-Mart/SEARS, Carrefour, ZARA, FCUK, Fendi, NEXT, Mother Care, IKEA, Trussardi, DKNY and Debenhams have made plans to march in the Indian market. ESPRIT, GUESS, Chanel, Mango and many other global marked their presence in India by implementing licensing and franchisee agreements. The global retailers on the line of control, awaiting the green signal from Govt. to enter Indian retail market. However, the current scenario has encouraged Indian players to speed up retail expansion and fresh retail ventures.

Companies like Shoppers Stop, Trent, Reliance, Lifestyle, Tanishq, Crossroads, Akbarallys' and Tanishq already have planned to invest over Rs 5,000 cr. Trent is on the edge to take both its brands 'Star India Bazaar' and 'Westside' to new cities, meanwhile Shoppers' Stop has recently geared up for expansion of present ones and to add 11 new stores including two hypermarkets. Also, Pantaloon has planned to add eight 'Big Bazaar' malls within the next six to eight months.

At the same time, several apparel exporters are keen to get opportunities in retail sector. Gokaldas Images, OC, TCNS, Gokaldas Exports and Celebrity Fashions are some of the exporters who already have expanded into retail sector with triumph. A Vibrant Economy', India topped A T Kearney's list of emerging markets for retail investments for three consecutive years and stood 2nd only behind Vietnam this year. The 2nd fastest growing economy in the world, the 3rd largest economy in terms of GDP in the next 5 years and the 4th largest economy in PPP terms after USA, China and Japan, India is rated among the top 10 FDI destinations.

FDI in retail industry means that foreign companies in certain categories can sell products through their own retail shop in the country. At present, foreign direct investment (FDI) in pure retailing is not permitted under Indian law. Government of India has allowed FDI in retail of specific brand of products. Following this, foreign companies in certain categories can sell products through their own retail shops in the country. India's retail industry is estimated to be worth approximately US\$411.28 billion and is still growing, expected to reach US\$804.06 billion in 2015. As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps:

1995: World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect.

1997: FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route.

2006: FDI in cash and carry (wholesale) brought under the automatic route. Up to 51 percent investment in a single-brand retail outlet permitted.

2011: 100% FDI in single brand retail permitted.

The Indian government removed the 51 percent cap on FDI into single-brand retail outlets in December 2011, and opened the market fully to foreign investors by permitting 100 percent foreign investment in this area. Government has also made some, albeit limited, progress in

allowing multi-brand retailing, which has so far been prohibited in India. At present, this is restricted to 49 percent foreign equity participation. The spectre of large supermarket brands displacing traditional Indian mom-and-pop stores is a hot political issue in India, and the progress and development of the newly liberalized single-brand retail industry will be watched with some keen eyes as concerns further possible liberalization in the multi-brand sector.

Factors that are playing a role in fuelling the brightfuture of the Indian Retail are as follows:

1. The income of an average Indian is increasing and thus there is a proportional increase in the purchasing power.
2. The infrastructure is improving greatly in all regions is benefiting the market.
3. Indian economy and its policies are also becoming more and more liberal making way for a wide range of companies to enter Indian market.
4. Indian population has learnt to become a good consumer and all national and international brands are benefiting with this new awareness.
5. Another great factor is the internet revolution, which is allowing foreign brands to understand Indian consumers and influence them before entering the market. Due to the reach of media in the remotest of the markets, consumers are now aware of the global products and it helps brands to build themselves faster in a new region

However, despite these factors contributing to the growth of Indian retail Industry, there are a few challenges that the industry faces which need to be dealt with in order to realize the complete scope of growth in Indian market.

Foreign direct investment is not allowed in retail sector, which can be a concern for many brands. But Franchise agreements circumvent this problem. Along with this regulation, local laws, and real estate purchase restrictions bring up challenges. Other than this lack of integrated supply chain, management, and lack of trained workforce and flux of the market in terms of price and product choice also need to be eliminated.

The Indian Retail industry has had years of debate and discussions on the risks and prudence of allowing innovation and competition within its retail industry. Numerous economists repeatedly recommended to the Government of India that legal restrictions on organized retail must be removed, and the retail industry in India must be opened to competition. Traditionally the retail industry in India comprised of large medium and small grocery stores and drug stores which could be categorized as unorganized retailing. Most of the organized retailing in India had recently started and was mainly concentrated metropolitan cities.

Market Maturity of Organized Retail Outlets in India



Market Maturity

Chart shows that till 1980s it was traditional retail that was popular and had gripped the market, but as the trend and demand started changing there has been a gradual change in mid 1980s with development of departmental stores. Gradually by 1990s there has been a drastic shift with onset of the Malls and in 2000 the development of multiplex and discount formats organized retail has come to stay and has great potential, provided the developments are able to incorporate designs that are of international nature and become the extension of the hospitality industry. Mall marketing as we go along will need to be very enriching and fulfilling so as to enable the patrons to enjoy the complete experience which needs to be different from buying online. This means that the retail marketing will become highly specialized and the skill sets will become very important to succeed. The government's five year tax relief for opening shopping malls and multiplexes will boost this trend to a great extent. It is predicted that between 2010 and 2015 there will be growth of larger malls.

Conclusion

The Indian retail sector is ready to take on challenges from global retail players such as Walmart and Carrefour because unlike them, they have a better understanding of the Indian consumer's psyche. Ultimately, a successful retailer is one who understands his customer. The Indian customer is looking for an emotional connection, a sense of belonging. Hence, to be successful any retail outlet has to be localized. The customer should feel that it is a part of his culture, his perceived values, and does not try to impose alien values or concepts on him. Indian customer is not keen to buy something just because it is sold by an international company. Ultimately, it boils down to how much localization and adaptation the company is willing to do for India. Other than tremendous money power, global companies have nothing extra or special

that the Indian retail business does not have. Only two percent of India's retail market is organized. The future shows tremendous potential for growth in the retail sector. Almost all large companies worldwide are looking to establish a base or stake in the Indian market. In this scenario, the Indian retail sector itself must seize the initiative to realize the dreams of contributing to a prosperous and booming economy. The focus should be on the Indian horizon before looking for retail opportunities in other countries because India itself is a big retail market. In the near future India will see a phenomenal growth of shopping malls and specialty retail stores. The specialty stores will cater for home, electronics, furniture, watches, sunglasses and assorted items. There will be more fashion stores for youth. Specialty retail stores and malls are the future of Indian retail market.

Industry experts predict that the next phase of growth in the retail sector will emerge from the rural markets. By 2015 the rural retail market is projected to have a total of more than 50 per cent market share. The total number of shopping malls is expected to expand at a compound annual growth rate of over 18.9 per cent by 2015. According to market research report by RNCOS the Indian organized retail market is estimated to reach US\$ 50 billion by 2020. Recently, the government decided to allow 51 per cent FDI in single-brand retailing which, has been welcomed by the industry. However, most are of the view that its impact will be largely limited to attracting more luxury brands. The limited foreign direct investment allowed by the government in the retail industry will not have much impact on the Big Bazaars and Shopper's Stops but it will allow luxury brands like Marks and Spencer, Louis Vuitton or Versace - which are currently taking the franchisee route - to open more stores in the country. There is an impending retail boom likely to happen sooner. The signs are all over the place. For few years foreign retailers will have the role of facilitator for to standardize the agribusiness and to unify customer's preference across the country.

Therefore industry experts predict that the next phase of growth in the retail sector will emerge from the rural markets. By 2015 the rural retail market is projected to have a total of more than 50 per cent market share. The total number of shopping malls is expected to expand at a compound annual growth rate of over 18.9 per cent by 2025.

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