

Indian Retail Industry: Opening more doors

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Abstract

Retailing is the most active and attractive sector of last decade. While the retailing industry itself has been present since ages in our country, it is only the recent past that it has witnessed so much dynamism. The emergence of retailing in India has more to do with the increased purchasing power of buyers, especially post-liberalization, increase in product variety, and increase in economies of scale, with the aid of modern supply and distributions solution.

The purpose of this research is to study the opportunities and challenges in Indian retail industry for Indian retailers and as well as for the foreign retailers. The study reveals that how since past few years retailing has been an emerging industry and opened door for the retailers. This paper concludes with the likely impact of the entry of global players into the Indian retailing industry. It also highlights the challenges faced by the industry in near future.

Key words: FDI, organized retailing, unorganized retailing, single brand retailing, and multi brand retailing.

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Introduction

What is retailing

The word "Retail" originates from a French-Italian word. Retailer is someone who cuts off or sheds a small piece from something. Retailing is the set of activities that markets products or services to final consumers for their own personal or household use. It does this by organizing their availability on a relatively large scale and supplying them to customers on a relatively small scale. Retailer is a Person or Agent or Agency or Company or Organization who is instrumental in reaching the Goods or Merchandise or Services to the End User or Ultimate Consumer. Indian retailing today is at an interesting crossroads. The retail sales are at the highest point in history and new technologies are improving retail productivity though there are many opportunities to start a new retail business, retailers are facing numerous challenges. Retailers offer many benefits to suppliers and customers as resellers. Consumers, for instance, are able to purchase small quantities of an assortment of products at a reasonably affordable price. Similarly, suppliers get an opportunity to reach their target market, build product demand through retail promotions, and provide consumer feedback to the product marketer.

Traditional Retail Scene in India

India is the country having the most unorganized retail market. Traditionally the retail business is run by Mom & Pop having Shop in the front & house at the back. More than 99% retailers function in less than 500Sq.Ft of area. All the merchandise was purchased as per the taste & whims and fancies of the proprietor also the pricing was done on ad hoc basis or by seeing at the face of customer. Generally the accounts of trading & home are not maintained separately. Profits

were accumulated in slow moving & non-moving stocks which were to become redundant or consumed in-house. Thus profits were vanished without their knowledge. The Manufactures were to distribute goods through C & F agents to Distributors & Wholesalers. Retailers happen to source the merchandise from Wholesalers & reach to end-users. The merchandise price used to get inflated to a great extent till it reaches from Manufacturer to End-user. Selling prices were largely not controlled by Manufacturers. Branding was not an issue for majority of customers. More than 99% customers are price sensitive & not quality or Brand Sensitive at the same time they are Brand conscious also. Weekly Bazaar in many small towns was held & almost all the commodities were on the scene including livestock. Bargaining was the unwritten law of market. Educational qualification level of these retailers was always low. Hence market was controlled by handful of distributors &/or Wholesalers. Virtually there was only one format of retailing & that was mass retail. Retailer to consumer ratio was very low, for all the categories without exception. Variety in terms of quality, Styles were on regional basis, community based & truly very low range was available at any given single place. Almost all the purchases / (buying) by mass population was need oriented & next turn may be on festivals, Marriages, Birthdays & some specific occasions. Impulsive buying or consumption is restricted to food or vegetables etc. Having extra pair of trousers or Shirts or Casuals & Formals & leisure wear & sports wear & different pair of shoes for occasions is till date is a luxury for majority population except for those living in Metros. Purchasing power of Indian urban consumer is very low and that of Branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food, Jewellery, are slowly seeping into the lifeline of Indian City folks. However electronic & electrical home appliances do hold appropriate image into the minds of consumers. Brand name does matter in these white goods categories. In the coming times also majority of organized

retailers will find it difficult to keep balance with rest of the unbranded retail market which is very huge.

Division of Retail Industry –

Organized and Unorganized Retailing

The retail industry is mainly divided into: - 1) Organized and 2) Unorganized Retailing

Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc. The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

Retailing Format in India

Malls:

The largest form of organized retailing today, Located mainly in metro cities, in proximity to urban outskirts. Ranges from 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Piramyd, and Pantaloon.

Specialty Stores:

Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

Discount Stores:

As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non-perishable goods.

Department Stores:

Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. Further classified into localized departments; such as clothing, toys, home, groceries, etc.

Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India and even has its own in store brand for clothes called Stop.

Hyper marts/Supermarkets:

Large self-service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified in to mini supermarkets

typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from of 3,500 sq ft to 5,000 sq ft. having a strong focus on food & grocery and personal sales.

Convenience Stores:

These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium

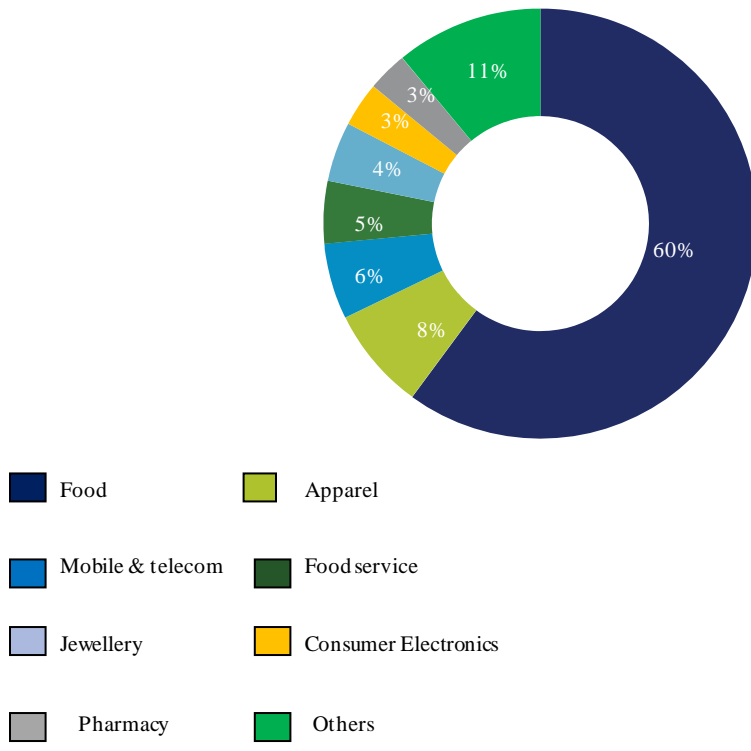
Retail market in India

Retail industry, being the fifth largest in the world, is one of the sunrise sectors with huge growth potential and accounts for 14-15% of the country's GDP. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India, especially over the last few years.

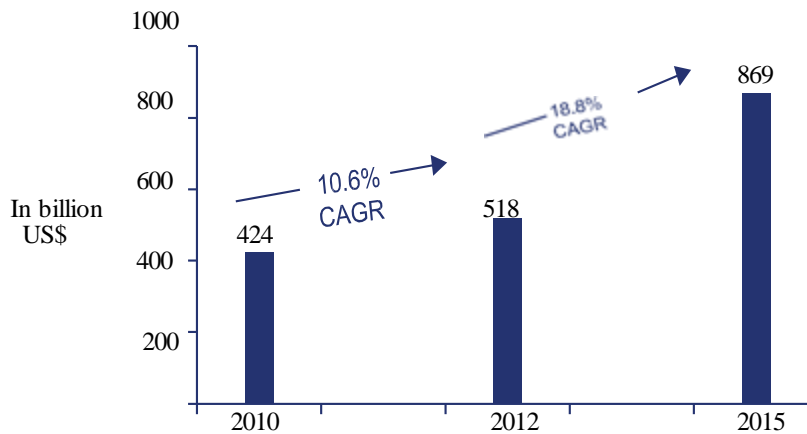
According to the Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail. The recent announcement by the Indian government with Foreign Direct Investment (FDI) in retail, especially allowing 100% FDI in single brands and multi-brand FDI has created positive sentiments in the retail sector. Organized retail, which constitutes 8 per cent of the total retail market, will grow much faster than traditional retail. It is expected to gain a higher share in the growing pie of the retail market in India. Various estimates put the share of organized retail as 20 per cent by 2020.

The Indian retail industry has experienced growth of 10.6% between 2010 and 2012 and is expected to increase to USD 750-850 billion by 2015. Food and Grocery is the largest category

within the retail sector with 60 per cent share followed by Apparel and Mobile segment.



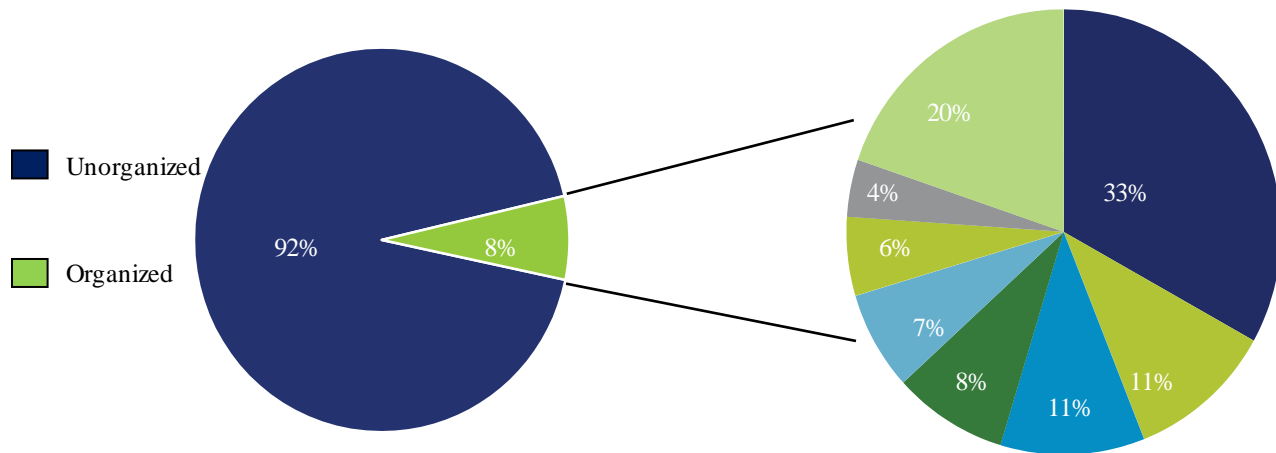
Source: IndiaRetail Report 2013, Images Group



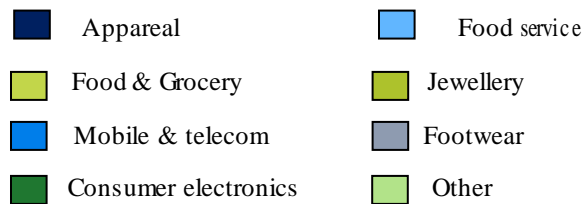
Source: India Retail Report 2013, Images Group

Note: For the purpose of above graph currency value for \$1 is taken as INR 50 in 2010 and INR 55 in 2012 and 2015

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



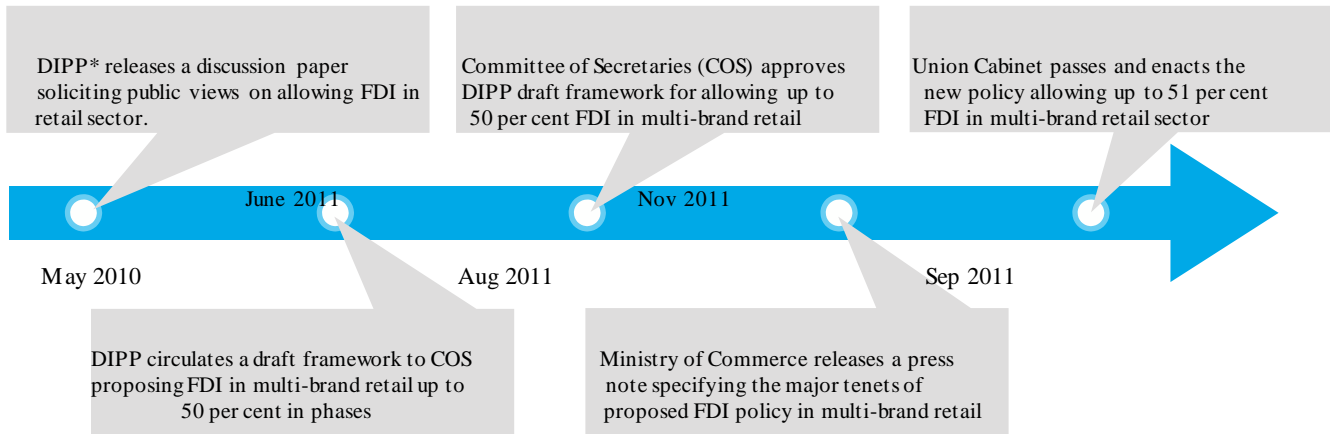
Source: & Bradstreet retail sector overview, India Retail Report 2013, Images Group



Evolution of FDI policy in Multi Brand Retail Trade (MBRT)

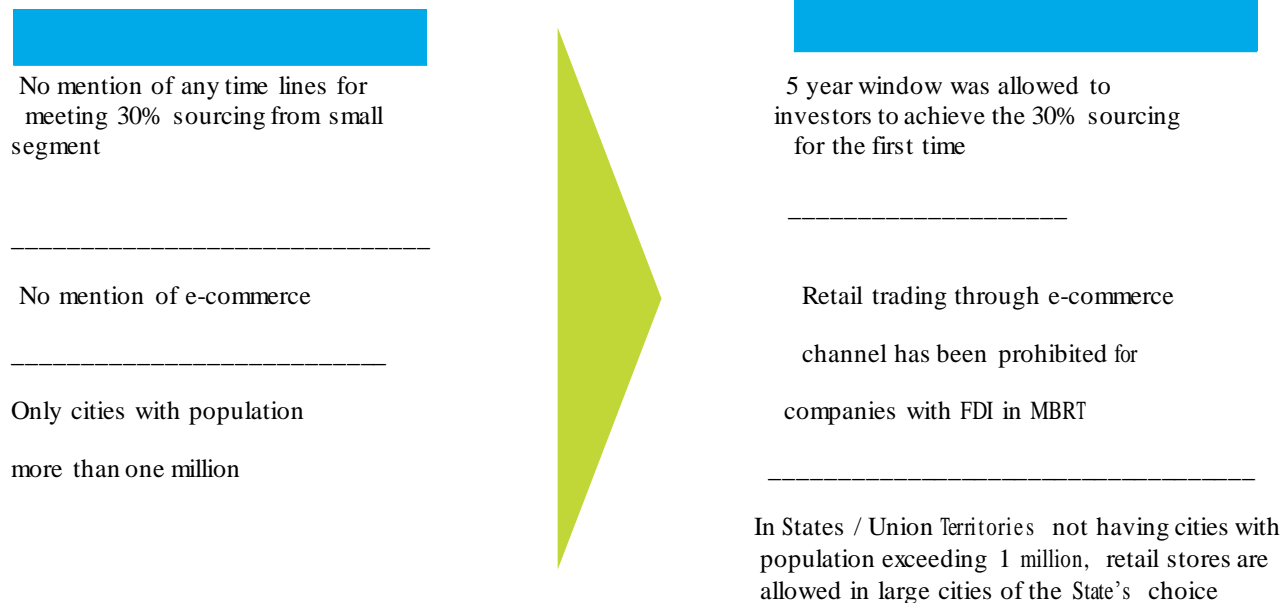
The Government of India had been considering opening up the MBRT sector to FDI for some time. In November 2011, the Government came out with its proposal for the new FDI policy. However, unable to achieve political consensus on the issue, they had to shelve their plans for the enactment of the policy. Finally the Government decided to pass the new FDI policy on MBRT in September 2012. The FEMA notification issued by the Reserve Bank of India permitting FDI in the retail sector was laid before the Houses of Parliament and the same have been cleared without any modification.

Timeline for evolution of Indian FDI policy in Multi-brand retail



*Department Of Industrial Policy & Promotion

The new policy contained a few key changes to the November 2011 policy draft released by the Government:



Implication of FDI policy on different stakeholders

Farmers

Higher penetration of organized retail would reduce the role of the middleman and enable better realization of price to farmers. Farmers will gain support from the retailers with whom they will share a common interest. This is expected to enhance productivity of farming activity. Farmers could access large markets through the organized retail chains. With improved supply chain, retailers will pick up the produce right from the fields. This will save transport costs incurred to take the produce to the local *mandis*.

SME segment

The policy condition of 30 per cent sourcing from the small enterprises will enable the SME segment to work with the large retailers and have access to a much larger region in India and potential access to world markets.

Traditional retail

In the last three years, both, modern retail and unorganized retail, have continued to grow. Due to real estate space constraint in prime locations within cities, traditional trade will continue to be a convenience store next door, whereas, organized retail is more likely to grow in the suburbs and outskirts of large cities. Both organized and unorganized retailers will coexist as both offer different value propositions to customers.

Organized retailers provide discount on bulk purchase and on ambience, whereas, traditional retailers provide convenience and top-up shopping.

Consumers

Food and Grocery, followed by Apparels, accounts for a significant proportion of the expenditure of Indian consumers. The consumer is more brand conscious in Consumer Electronics, Footwear and to some extent in Apparels. For Food and Grocery, the expenditure is predominantly on non-branded products.

With the entry of foreign retailers in multi-brand retail, the consumer will have a wider choice and a better shopping experience. There might be a gradual shift in consumption patterns such as non-food items gaining a larger share of the pocket and consumption of branded products in grocery items.

Existing multi-brand retailers

FDI in multi-brand retail would benefit capital constrained retailers and could reduce the piling debt of many Indian retailers. FDI would accelerate the pace of investment in the supply chain to meet the demands of increasing scale which would in turn benefit the existing players. Indian players have no restriction on sourcing, e-commerce, location of retail stores - investments in backend infrastructure etc. hence would hold a competitive advantage over any retail chain with FDI.

FDI in multi-brand retail with riders

The proposal of the Union Cabinet allow 51 per cent foreign direct investment (FDI) in multi-brand retail clears the deck for multi-national chains such as Carrefour, Tesco and Walmart to set up shop in India, but with riders.

Riders

A. It clearly says that approval should be taken from the Foreign Investment Promotion Board (FIPB) for investments.

B. It also states that fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, may be unbranded. For the purpose of FDI in multi-brand retail, the note describes small industries as units which have a total plant and machinery investment not exceeding \$250,000 (around Rs.1.25 crore). This investment refers to the value at the time of installation, without providing for depreciation. The foreign retail chains will be required to comply with self-certification. They have to keep all records, and the government will have the first right to procure agricultural produce

Opportunities in Indian retail

For long, the analysts have been betting on strong retail and financial services sector performances to help and power India – Asia’s third-largest economy. Such expectations further get a boost as more and more Indians move towards western-style consumer spending patterns. And, while Fitch, the global ratings agency, has recently opined that Indian consumer spending is at its weakest in seven years, we at FICCI believe that India’s retail sector will become a USD 1.3 trillion opportunity by 2020. By that time, there will be close to 200 cities with population of over 0.5 million that will fuel retail growth

The estimated value of the Indian retail sector is about USD 500 billion presently. Further, modern retail, which currently stands at 5 percent, will grow about six times from the current USD 27 billion to USD 220 Billion in the next 8 years. We believe that integrated multi-channel

retailing will drive consumption in India. Modern retailers have in the past tried to capitalise on this opportunity by increasing their store presence across major cities. Fast moving consumer goods (FMCG) majors, have on the other hand, have tried to enhance distribution reach.

However, achieving these robust growth projections requires the industry to look beyond the conventional brick-and-mortar stores, and consider other avenues like digital and mobile sales. This is because expensive real estate costs are already playing spoilsport for retailers. Real estate costs, especially, high rentals that are in range of 10 – 15% of revenue, render breaking even a daunting task. Retailers need to rethink their business plans and shift a chunk of their sales from stores to alternate low-cost channels. Digital sales points are increasingly becoming a preferred option for retailers. Sales through digital channels, notably websites and mobile applications, which at present are miniscule, will increase to 6-8 % of the total modern retail, by amounting to about USD 13.3-17.6 Billion by 2020.

Challenges for FDI in India

The advent of FDI policy of September 2012 can pave the way for modernization of the Indian retail sector, however, the journey ahead is challenging. Even well heeled MNC retailers will have to pay heed to the Indian political, social and competitive landscape, if they want to succeed in the Indian retail sector.

Availability of Retail Space: Hypermarkets require more than 60,000 sq. ft. and departmental stores require more than 20,000 sq. ft. of retail space. Such retail space in prime locations in the big cities is scarce and available only at high rental costs. High rental cost: The Indian retail rentals have been quoted to be around 300-400 basis points higher than international rentals. Rents in prime properties have increased by 50 per cent in just three years. According to an

industry estimate, rentals comprise approx. 40 per cent of total cost of sales in the retail sector. Thus, successful negotiation of rents would constitute a key success factor for MNC retailers.

Clarification on certain policy features: The policy note does not specify whether investment in back end infrastructure needs to be a fresh investment or if foreign companies can buy stakes in already established backend infrastructure.

Red Tape – Getting various government approvals:

Entry of a multi-brand MNC retailer in the retail sector would fall under the approval route. This implies that the MNC retailer would have to go through different layers of Government departments before getting the go ahead.

Political Risk: The largest opposition party in India has opposed FDI in retail and some of its leaders have indicated that they will scrap the policy if their party comes to power. A political change in state and central governments puts a lot of political risk on investment in retail.

Skilled Manpower: One of the major challenges faced by the existing players is the availability of skilled manpower; any foreign retailer planning to enter India will have to face similar challenges. Infrastructure Challenge: Roads, ports, electricity are some of the infrastructure challenges, which increase the operational cost of the retail chain.

Currency Fluctuation: In the past three months, the dollar/INR exchange rate has fluctuated by approx. 8 per cent. This may put considerable currency risk on any foreign investment in India.

MNC players need to take cognizance of a host of consumer behavioral issues and policy implications before deciding on their foray into the Indian retail market.

Right Partner: The success of the business will be heavily influenced by the choice of partner. International players should partner with players who will help them reach the end customers and possess lucrative front-end retail infrastructure. An established player in the retail market will

help bring in customers while the foreign player can use its expertise in supply chain and logistics to further enhance the operational efficiency.

Advantages of FDI

FDI in Retail Sector is a very good indication for consumers because they will get lots of diversities in a sensible price, employment generation, and increase in competition.

- **Growth in economy:** Due to coming of foreign companies' new infrastructure will be build, thus real estate sector will grow consequently banking sector, as money need to be required to build infrastructure would be provided by banks.
- **Job opportunities:** Approximations, this will create about 80Lakh jobs. These career opportunities will be created mostly in retail, real estate. and it will create positive impact on others sectors also.
- **Benefits to farmers:** By FDI, as farmers might get contract farming where they will supply to a retailer based upon demand and will get good cash for that, they need not to search for buyers.
- **Benefits to consumers:** Consumer will get variety of products at low prices compared to market rates, and will have more choice to get international brands at one place.
- FDI might help India overcome issues like improper infrastructure. In spite of India being one of the largest producers of vegetables and fruits, lack of proper count of cold

storages has significantly affected the selling of these perishable items by channelizing the resources in the right manner.

- **Growth of the Retail sector in India - Improvement in Retail capability building**

About 5-7 years back, the industry was expected to grow at a much faster rate than what it actually has. Lack of retail experience & capability has been one of the primary reasons for this subdued growth. FDI in retail will make way for inflow of knowledge from international experts which can give boost to the overall growth of the industry. Capability building apart from financial investments is extremely important for the industry.

- **Push to Infrastructure - Improvement in management of supply chain: FDI in retail**

will boost investment in infrastructure from the retail players, 3rd party supply chain companies as well as the Government in the back of a sophisticated front end that international players are likely to bring. This will improve the efficiency of the supply chain, which will bring down the wastage, increase efficiency and reduce the overall cost to the consumer.

- **Single brand:** This is a welcome step. FDI investment in single brand retailing till now

has just been 0.03% [Rs 204 cr / usd 44 mn] of total FDI investments from April 2000 to September 2011. This relaxation is likely to result in increase in FDI in retail sector, by way of either new foreign entrants, or buy outs / increase in stake / amongst existing single brand with foreign partners. We could also potentially see present licensing / distributor / franchise arrangements being converted to either JVs with respective foreign

retailer / brands, or, foreign retailers completely buying out the Indian licensee / franchisee / distributor.

- **Multi brand:** This is a welcome and historic step. This is likely to result in increase in investments and growth in Indian retail sector, which is ranked amongst the top retail destinations in the world. Besides new entrants / joint ventures, this could also result in combination of existing cash and carry operations of foreign players with retail operations of Indian retailers, or, foreign retailer acquiring stakes in existing Indian retail entity. Also, this could provide further options to existing Indian retail chains / groups to raise long term capital for expansion and maybe to attract partnerships with some global players. Also, foreign multi brand retailers, who did not want to enter India through cash and carry operations, may now explore Indian presence by having stake in Indian retail company¹⁴

Disadvantages

- According to the non-government cult, FDI will drain out the country's share of revenue to foreign countries which may cause negative impact on India's overall economy.
- The domestic organized retail sector might not be competitive enough to tackle international players and might lose its market share.
- Many of the small business owners and workers from other functional areas may lose their jobs, as lots of people are into unorganized retail business such as small shops.

Conclusion

Retail industry is the most booming sector in current scenario. It will provide more and more opportunities in the near future. The growth of the organized retail industry in the country will mean thousands of new jobs, increasing income levels and living standards, better products, and services, a better shopping experience, and more social activities. But apart from the aspect that Indian retailing opening door for foreign retailers, it is also being seen as a threat for Indian retailers. The regulatory body and the Govt. have to take care that due to entry of FDI in retail the market will not become a high concentration in the country and can make regulation to prevent foreign retailers like Wal-Mart from having a high concentration of business in the country.

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