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## Indian Retail Market: A Critical Analysis

Mohd. Rehan Alam,  
Assistant Professor - ARSD College, University of Delhi.

### Abstract

In recent years, the Indian retail business has got a lot of attention. Due to its quick growth and expansion on a national and worldwide basis, the retail business has been a success story in the Indian economy. The shifting trends in income and consumption, style of living, education, and technology expand India's retailing opportunities. The retail revolution has the potential to transform the Indian economy by creating millions of jobs, increasing overall economic productivity, and, most importantly, lowering prices for consumers. The purpose of this research study is to examine the evolving retail landscape in India.

### Key words

Retailing, FDI, Organized retail, Kiranna shop

### Introduction

Retailing is not a new notion; in fact, it can be traced back to the dawn of human civilization in the shape of one or more forms of economic activity. People have been using this term in commerce since the beginning to refer to the buying and selling of goods and services, as well as making things available to meet the needs and desires of clients. Because our government does not recognize retail as an industry, it has been discovered that 98 percent of retailing in India is unorganized, with only 2% organised. There is little doubt that retail is the chosen employment alternative to agriculture for a vast number of people. Lack of proper infrastructure, low government assistance, logistical challenges, insufficient resources, and illiterate and unskilled retailers that participate in the retail sector could all be contributing to agriculture's backwardness. Retailing was once seen to be traditional, but it has undergone a tremendous shift as a result of rapid population expansion, which has resulted in good changes in economic growth and development, as well as an increase in the middle class population and their income. Because of the rise in wealth, the middle class people is now more aware of the level of living in other nations, as well as exposures provided by the media and the internet, they have chosen to spend rather than saving approach.

### Data and Methodology

The entire discussion in this paper has been made on the basis of secondary sources. The different books, journals, newspapers & E-resources have been referred to in this regard.



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## Indian Retail Sector

The Delhi High Court defined "retail" as a sale for final consumption as opposed to a sale for resale or processing (i.e. wholesale). In other words, a sale to the final consumer. As a result, retail serves as the final link in the chain connecting the individual consumer to the manufacturing and distribution processes. A retailer is a firm that sells products to individual customers for a profit.

The Retail industry can be categorized into two:

1. Organised Retailing - Licensed retailers, that is, those who are registered for sales tax, income tax, and other taxes, engage in organised retailing. Corporate-backed hypermarkets and retail chains, as well as privately owned large retail firms, fall under this category.
2. Unorganized Retailing – These refers to conventional low-cost retailing formats such as kirana shops, owner-operated general stores, paan/beedi shops, convenience stores, hand cart and pavement sellers, and so on. The Indian retail sector is highly fragmented, with Mom and Pop establishments accounting for 97% of all sales.

### Types of Retailing in India

**1. Single Brand** - Foreign corporations such as Reebok, Nokia, and Adidas would be permitted to offer things sourced from other countries under a "single head." In "single brand retail," foreign direct investment (FDI) indicates that a store with foreign investment can only sell one brand. If Adidas were to obtain a licence to advertise its main brand in India, such retail sites would be able to sell just Adidas products, not Reebok, which would require separate clearance. Adidas would be able to offer Reebok products in its own stores if given permission.

**2. Multi Brand** - According to FDI in Multi Brand Retail, a retail firm with foreign investment can provide numerous brands under one roof. Global retailers such as Wal-Mart, Carrefour, and Tesco will be able to open stores that sell a variety of household items and groceries directly to customers, similar to a traditional kirana store, if FDI into multi-brand retail is allowed.

### Retail Policy Scenario

#### Policy before opening up of FDI in Retail

Foreign Direct Investment (FDI) in multi-brand retailing has been prohibited. However, up to 51 percent FDI in the Single Brand Retail Trading (SBRT) sector was allowed through the



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Government/Foreign Investment Promotion Board (FIPB) mechanism, subject to the following conditions:

- a. Products to be sold under single brand only.
- (b) Products should be sold under the same brand worldwide, meaning they should be offered in one or more countries other than India.
- (c) 'Single Brand' product-retailing would only apply to products that have been branded throughout the production process.
- (c) The brand should be owned by the foreign investor.

The government permitted 100 percent foreign direct investment in single-brand retail in 2012, with the stipulation that international brands must obtain 30 percent of their needs from small and medium businesses (SMEs). On September 14, 2012, India's government announced a series of historic reforms, including allowing foreign direct investment in multi-brand retail and other areas.

The following are the policy's main points on multi-brand retailing:

- a. Under the Government approval method, FDI of up to 51 percent is permissible (i.e. prior approval from Government of India before induction of FDI).
- b. Fresh agricultural items, such as fruits, vegetables, cereals, and meat products, can be exchanged even if they are unbranded.
- c. Foreign investors must make a minimum investment of USD 100 million.
- d. Within three years of FDI induction, at least 50% of foreign investment must be invested in back-end infrastructure, including investments in:
  - Processing
  - Manufacturing
  - Distribution
  - Design Improvement
  - Quality Control
  - Packaging
  - Storage
  - Warehousing



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## **Challenges and Opportunities of Retailing in India**

In India, the retail business has a long way to go. Retailing must overcome the following challenges to become a truly successful industry:

- a. Foreign investment in retail does not receive automatic permission.
- b. Real estate purchasing restrictions, as well as onerous local rules.
- c. Taxation that supports small retail establishments.
- d. There is a lack of a well-developed supply chain as well as integrated IT management.
- e. A shortage of well-trained and educated workers.
- f. Retail management requires a low level of ability.
- g. Retailing's inherent complexity - frequent pricing fluctuations, constant product threat.

By learning how retailers in other parts of the world organise, manage, and deal with new difficulties in an ever-changing industry, Indian merchants may better comprehend both the art and science of selling. To improve the shopping experience in India, businesses must adopt creative retail formats and try to understand regional differences in consumer attitudes toward retailing. Advertising, promotions, and campaigns to attract customers; establishing loyalty by recognising regular shoppers and rewarding them; efficiently managing high-value customers; and continually monitoring customer demands are some of the factors on which Indian retailers need to focus more pro-actively. Despite the availability of crucial components necessary for the retail industry's growth in India, it still faces severe challenges that will stifle and obstruct its future progress. One of the primary barriers is the absence of FDI status. This has restricted capital investments in supply chain infrastructure, which is crucial for the development and growth of the food retailing industry, as well as access to best-in-class retail practises. The complexity and multiplicity of taxes, a lack of suitable infrastructure, and the comparatively high cost of real estate are all obstacles to retailing growth. While businesses and governments are attempting to remove many of these roadblocks, others will persist and obstruct the industry's growth. Retail is one of India's most important industries, accounting for almost 10% of the country's GDP and employing around 80% of the workforce. India's retail sector is at an all-time high. It is currently in a transition phase and is emerging as one of the most dynamic and innovative companies in the world. India has a plethora of vibrant industries with a large number of current businesses players and a never-ending addition. The only disadvantage is that the fact that India's



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industry is still mostly unorganized when compared to the developed countries. This is a disadvantage and can be viewed as a great opportunity for establishing a well-organized retail environment outlets, which is why more and more players from over the world are flocking to the game.

### **SWOT Analysis of Indian Retail Sector**

#### **Strength**

- Will help in the economic growth.
- Young and dynamic manpower to meet the task; world's highest shop density, thus small outlets have no fear.
- India's retail and wholesale trades are growing at a rapid pace.
- Existence of a large business/industry house capable of absorbing losses.

#### **Weakness**

- Low retail capital investment; a lack of qualified and educated labour; and a lack of competition
- When compared to specialized stores, prices are higher.
- Inadequate infrastructure
- Due to a lack of suitable warehouses and cold storage facilities, there has been a lot of waste.
- The distribution of profits and investment ratios are not set in stone.

#### **Opportunities**

- Consumers will have more choice and deals.
- Dealing in a variety of international items boosts economic progress.
- In the next three years, the UPA government claims that 1 million (10 lakh) jobs will be generated.
- Hope for large-scale job creation in the future.
- Farmers' financial situation will be improved.
- Will improve the efficiency of the retailer.
- Inflows of foreign capital.
- Bigger markets with more sophisticated technology and branding.
- Improvement in quality while lowering costs.
- Expansion of export capacity

#### **Threats**

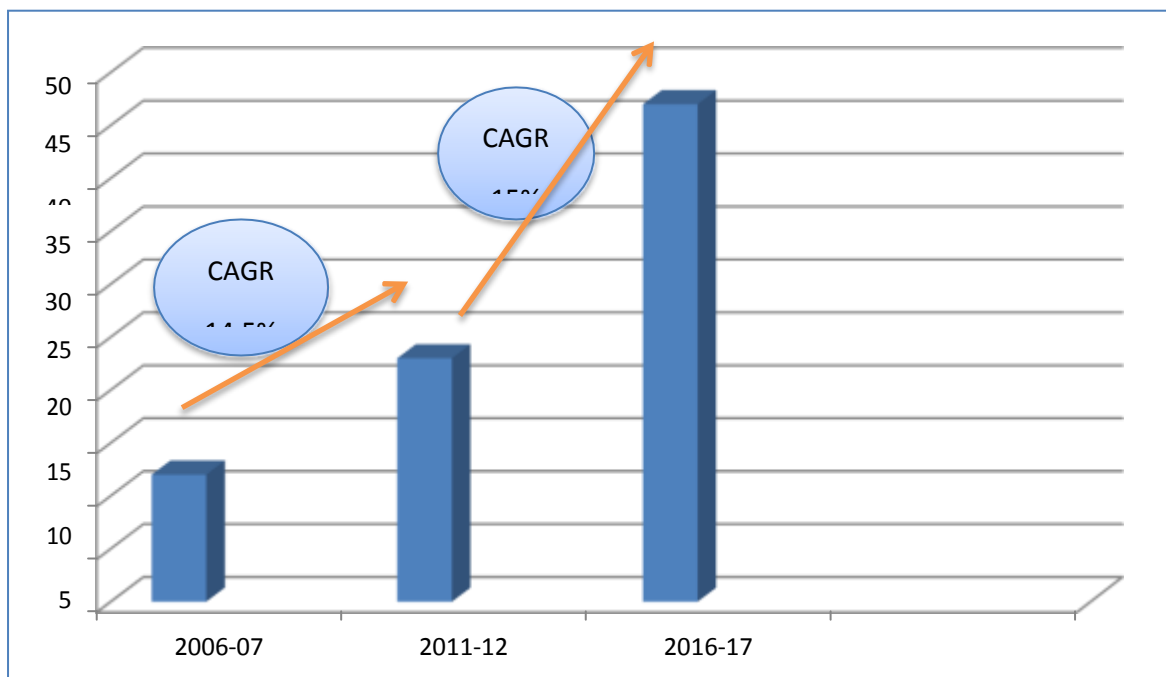
- Fear of foreign investors/big stores controlling the retail sector, which Kiranna and retailers may lose business in the long run.

- FDI in multiband retail could result in manufacturing employment losses.
- Farmers may be harmed as a result of roadside bargains.
- The work will be completed by Indians, and the profits will be distributed to foreigners.
- Farmers will be exploited, and foreign capitalists will take over their land and harvests.

### Future Prospects for the Retail Industry

Over the next five years, the whole retail market (organised and unorganised) is predicted to grow at a compounded pace of 15%, from INR 23 trillion in 2011-12 to INR 47 trillion in 2016-17.

### India's Overall Retail Growth



Retail growth in India (INRtrillion)

**Source: Central Statistical Organization (CSO), National Sample Survey Organization (NSSO)**

By 2016-17, organised retail is predicted to increase at a greater rate than total retail, with a growth rate of 24 percent compared to 15 percent for total retail during the same time.



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Increased prosperity among urban customers, a growing taste for branded products, and rising ambitions among young will all contribute to this increase. On the supply side, this expansion will be aided by existing players' expansion plans as well as the admission of new players.

As a result, organised retail penetration is expected to rise to 10% in 2016-17, up from 7% in 2010-11. Store-based retailing is predicted to rise at a 7.6% compound annual growth rate (CAGR) from 2011 to 2016, and by 44 percent in absolute terms. In terms of current sales value, grocery retailers are expected to expand at a CAGR of 8.9% from 2011 to 2016, while non-grocery retailers are expected to expand at a CAGR of 6%.

### **Top Retailers Worldwide**

#### **Rank Retailer Home Country**

1 Wal-Mart Stores, Inc. U.S.A.

2 Carrefour Group France

3 The Kroger Co. U.S.A.

4 The Home Depot, Inc. U.S.A.

5 Metro Germany

(Source: STORES / Deloitte ToucheTomahatsu)

### **Policy Recommendations**

- Using Public-Private Partnerships to modernise established markets.
- Adoption of the Model Act in all states will modernise the APMC markets.
- Creating a national universal licencing framework that eliminates the multiple approvals that are now required for retail firms to operate.
- China's metro Cash-and-Carry stores are being replicated for sale to unorganised retail and farmer procurement.
- Make it easier to form unorganised retailing organisations and cooperatives that buy directly from suppliers and farmers.
- Farmers should be encouraged to form such cooperatives to sell to organised retailers.

### **Conclusion**

The retail sector in India is the second largest employer after agriculture, despite being highly fragmented and dominated by tiny independent, owner-managed stores. In India, there are approximately 12 million retail shops. The country is experiencing a period of increased retail trade, owing to a gradual increase in middle and upper-middle-class households' disposable incomes. In the shape of mall and shopping centre builders and managers, a growing number of corporate entities, including significant real estate businesses, are entering the retail market, either directly or indirectly. Apart from broad, positive changes in the quality of life in metros and larger towns, the retail revolution is also delivering incremental improvements





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in lifestyle in India's smaller cities. Increased literacy, media exposure, and the availability and penetration of a wide range of consumer goods into the country's interiors have all contributed to a reduction of the expenditure gap between customers in major cities and those in smaller towns. The rise of organised retailing must become a nationwide phenomenon for the retail sector to continue to flourish. Many multinational retailers and brands still regard India as too difficult, but if they believe the country is improving, they would welcome the opportunity to develop a proper joint venture. As the country's organised retail business expands, tens of thousands of new jobs will be generated, as will income levels and living standards, better products and services, a better shopping experience, and more social activities. Consumers profit from organised retail because it offers a broader variety of items, greater convenience, and a nicer shopping atmosphere, among other things. At first appearance, organised retail appears little, but it is widely distributed throughout all local markets, providing the ease of a neighbourhood kirana store.

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