

CHALLENGES, TRENDS AND THE ROAD AHEAD FOR THE RETAIL INDUSTRY

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Abstract:

Indian Retail Industry has the fifth largest place in the world. It comprising organized and unorganized sectors, Indian retail industry has one of the fastest growing industries in India. Indian Retail Industry is growing from US\$330 billion in 2007 to US\$640 billion by 2015. The retail sector is one of the fastest growing sectors in India, having the world's second largest place in consumer market. Retailing has the major business activities in India and leading sources of employment generation in India. Due to excessive change in the behavior, taste and preferences of the consumer, and the growing economy, earning ability, less time and fast track life makes the emerging challenge in the retail sector of India. Indian retail sector mainly divided into two parts unorganized and organized retail. Organized retail has limited market share in comparison of unorganized retail sector. Recently Indian Government allowed FDI in single brand retailing and multi brand retail, which comprises challenges for retail industry. The purpose of this paper is to find out the growth and challenges in Indian retail industry and major problems for Indian retailers and as well as for the foreign retailers. This paper shows the detailed information about the growth and challenges of retail industry in India.. Due to changing in the scenario of world's economy retail sector attracts the thought of scholars to make some hard work relating to study of growth and challenges. Since hard work has been made in this paper to highlights the present status, growth, opportunities and problems of retail sector in India. 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. 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.

Keywords: Retailing, Organized and Unorganized sector, FDI, World's Economy

Introduction

According to a definition the word "Retail" had originates from a French-Italian word. Retailer is adperson 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. India is having the 5th largest place in the world's retail market. The country gets fourth rank among the survey of 30 countries in terms of global retail development. Retailing has played a important role in the world to growing the productivity across a wide range of consumer goods and services. In the developed countries, the organized retail sector having almost 80% of the total retail industry. But in contrast, India organized retail sector having 8% of the total retail industry. This highlight shows the terrific potential for retail sector growth in India. In India, retail sector is one of the major pillars of economy who comprises 14 to 15 percent of its GDP. The Indian retail market is estimated to be US\$ 450 billion and having fifth place in retail markets of the world by economic value. India has one of the fastest growing retail markets of the world in framework of customer, which having 1.2 billion customer. As of 2013, India's retailing industry was owner manned small shops. In 2010, larger format like as expediency stores and supermarkets having only 4 percent of the industry, and these were presented only in large urban centers. India's retail industry employs to the 40 million Indians, which is 3.3% of total population of India. Usually Indian retail shops are very small in size. Out of 14 million outlets situated in the country only 4% of them having larger than 500 sq ft space. India has only11 shops outlets for each 1000 people. A preponderance of the unorganized retail shops in India employ by fame members, they do not have the scale to procure and transport products at high volume wholesale level. They have limited information related to quality control and fake-versus-authentic product screening technology. They have no training about safety and hygienic storage, packaging or lo logistics of the unorganized retail shops purchase their products from middlemen who spot up the product as it moves from farmer or producer to the consumer.

The unorganized retail shops not offer after-sales support or service to their customers. Most of the dealings at unorganized retail shops are done with cash.

Objective of the Study

This research Paper is prepared for the purpose of find out growth and challenges of retail sector in India.

1. To review the present status in retailing in India
2. To identify the problems in retailing from the point of view of providers and consumers
3. To provide suggestions to popularize inertial companies in India

Research Methodology

This paper is based on secondary data and Information has been sourced from various books, trade journals, government publications, newspapers etc. and research is descriptive in nature.

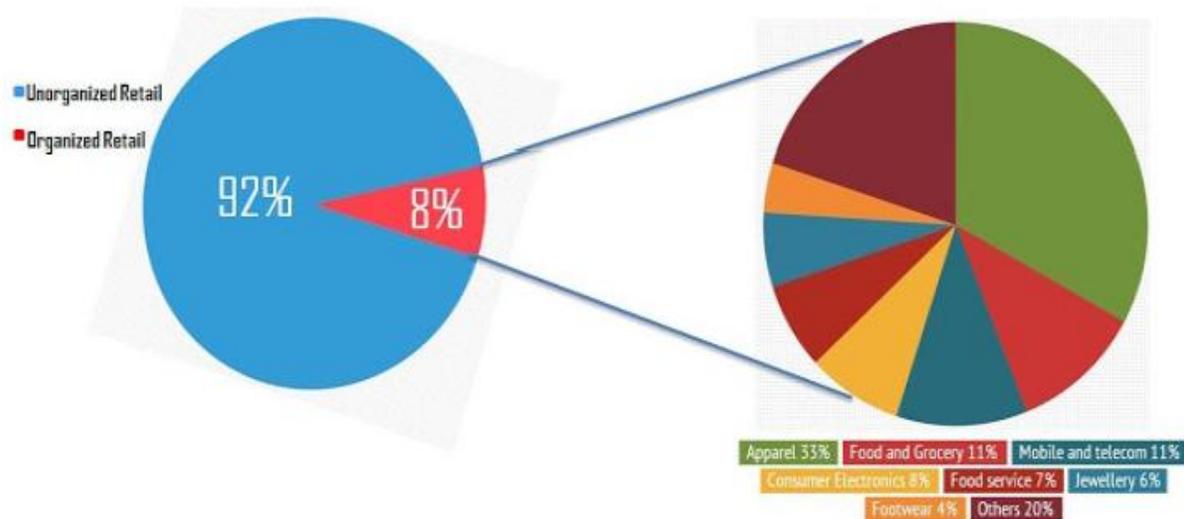
I. What is Retailing?

Retailing is a distribution channel function, where one organization buys products from supplying firms or manufactures products themselves, and then sells these directly to consumers. In preponderance of retail situations, the organization, from whom a consumer buys, is a reseller of products obtained from others, and not the product manufacturer. However, some manufacturers do operate their own retail outlets in a corporate channel arrangement. Retailers offer many profit to suppliers and customers as resellers. Consumers, for instance, are able to purchase small quantities of a variety 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.

During the last few years, the Indian retail market has seen substantial growth in the organized segment. Major domestic players have entered the retail arena and have ambitious plans to expand in the future years across verticals, formats, and cities. For example, companies like Reliance, Tata, Bharti, Adani Enterprise, have been investing significantly in the booming Indian retail sector. Besides, a number of transnational corporations have also set up retail chains in collaboration with big Indian companies. The Indian retail sector is highly uneven and the unorganized sector has around 13 million retail outlets that account for around 95-96% of the total Indian retail industry. However, going forward, the organized sector's growth possible will increase due to globalization, high economic growth, and changing lifestyle. Moreover, high consumer spending over the years by the young population (more than 31% of the country is below 14 years) and sharp rise in non-refundable income are driving the Indian organized retail sector's growth. Even small towns and cities are witnessing a major shift in consumer lifestyle and preferences, and have thus emerged as attractive markets for retailers to develop their presence. Although the growth potential in the sector is enormous, it is not without challenges that could slow the pace of growth for new entrants. Rigid regulations, real estate costs, high personnel costs, lack of basic infrastructure, shrinkage, and highly competitive domestic retailer groups are some such challenges. Additionally, resource constraints at shopping mall projects are also delaying completion and disturbing many retailers' entry strategies.

II. Types of Retailing

In India there are mainly two types of retailing sector one is organized and another one Unorganized. In India Organized retailing refers to trading actions undertaken by licensed retailers, those who are registered for sales tax, income tax, etc. These include the publicly traded supermarkets, corporate backed hypermarkets and retail chains, and also the privately owned large retail businesses. On the other hand, unorganized retailing refers to the traditional formats of low-cost retailing. For example, the local corner shops, owner manned general stores, paan/ beedi shops, convenience stores, handcart and roadway vendors, etc.



Currently India having only 8% of organized retail sector and remaining 92% is captured by unorganized, which may grow much faster than traditional or unorganized retail sector. It is estimated to gain a large share in the growing retail market in India. Various estimates states that the share of organized retail will increases as 20% by 2020. The growth pattern of the organized retail sector and the consumption made by the Indian population may follow rising trend which helps the new businessmen to enter the Indian Retail sector.

The traditional or unorganized retail industry is estimated to grow at an average rate of 5% annually over the next year, while the organized retail is estimated to grow a rate of around 25% annually during the same period.

III. Challenges in Retail Sector

1. Retail productivity in India is very low relationship to international. Total retail employment in India from organized and unorganized is 3.3% of Indian labor workforce out of which mostly related to the unorganized retail sector.
2. Indian retailing is still conquered by the unorganized sector in comparison of organized sector. There is still a lack of efficient supply chain management in retail sector.
3. Most of the retail outlets in India are having less than 500 square feet in size.
4. Many political parties in India have opposed FDI in retail sector. A political change in state and central governments can puts a lot of political risk on investment in retail sector.
5. Trained manpower is a challenge for the organized retail sector in India. The Indian retailers have complexity to finding the trained manpower and also have to pay more to retain them.
6. The lack of proper infrastructure and distribution channels in the country results in ineffective processes in retailing. This is a major problem for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses for them.
7. Different structure of sales tax in different states. Taxation laws that does not support small retailers

IV. Growth Trends in Indian Retail Industry

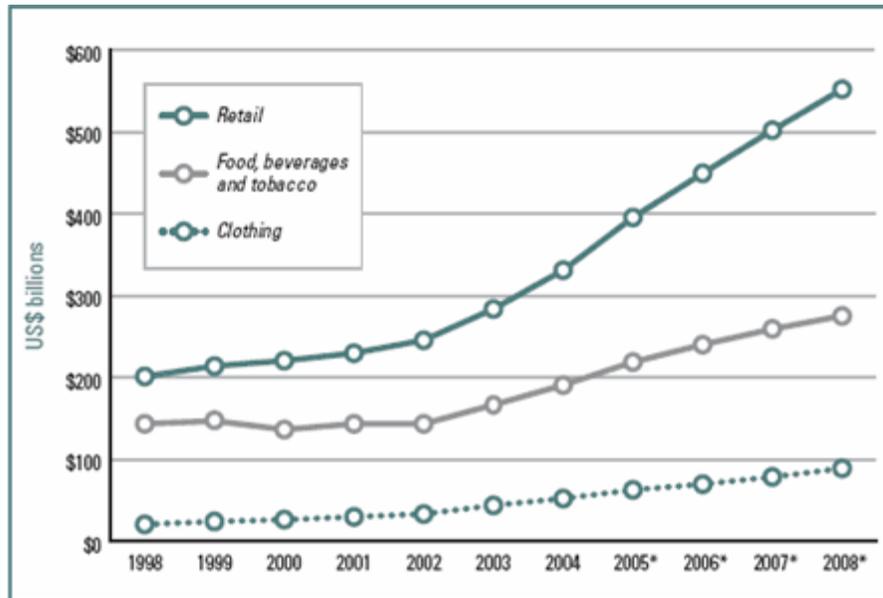
1. Retail industry has been on a growth trend over the past few years. With the growth of economy back on track, retailers are making their development plans. The retail industry is expected to grow at a rate of 12% per annum for the next 5 years.
2. The Indian retail industry has growth of 10.6% between 2010 and 2012 and is estimated to increase to US\$ 750-850 billion by 2015.
3. The current sign of Government to initiate Foreign Direct Investment (FDI) in various sectors is bringing a new interest to the investment climate in India and more and more foreign marketers attracting towards Indian retail market.

4. Higher incomes motivating the purchase of essential and non-essential products which contributing in the growth of the retail sector
5. Consumption patterns of Indian customers are changing
6. Increase in easy access to credit and consumer consciousness
7. New technology and lifestyle trends creating replacement demand
8. Increase in rural income as well as urbanization of the population

Recent Trends

1. Retailing in India is witnessing a huge revamping exercise as can be seen in the graph
2. India is rated the fifth most attractive promising retail market: a potential goldmine.
3. Estimated to be US\$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 percent or US\$ 6.4 billion
4. As per a report by KPMG the annual growth of department stores is estimated at 24%
5. Ranked second in a Global Retail Development Index of 30 developing countries drawn up by AT Kearney.
6. Multiple drivers leading to a consumption boom:
 - a) Favorable demographics
 - b) Growth in income
 - c) Increasing population of women
 - d) Raising aspirations: Value added goods sales
7. Food and apparel retailing key drivers of growth
8. Organized retailing in India has been largely an urban
9. Phenomenon with affluent classes and growing number of double-income households
10. More successful in cities in the south and west of India. Reasons range from differences in consumer buying behavior to cost of real estate and taxation laws
11. Rural markets emerging as a huge prospect for retailers reflected in the share of the rural market across most categories of consumption
 - a) ITC is experimenting with retailing through its e-Choupal and Choupal Sagar rural hypermarkets.
 - b) HLL is using its Project Shakti initiative i.e. leveraging women self-help groups to survey the rural market.
 - c) Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets.
12. IT is a tool that has been used by retailers ranging from Amazon.com to eBay to radically change buying behavior across the globe
13. E-tailing is slowly making its presence felt

RETAIL SALES IN INDIA

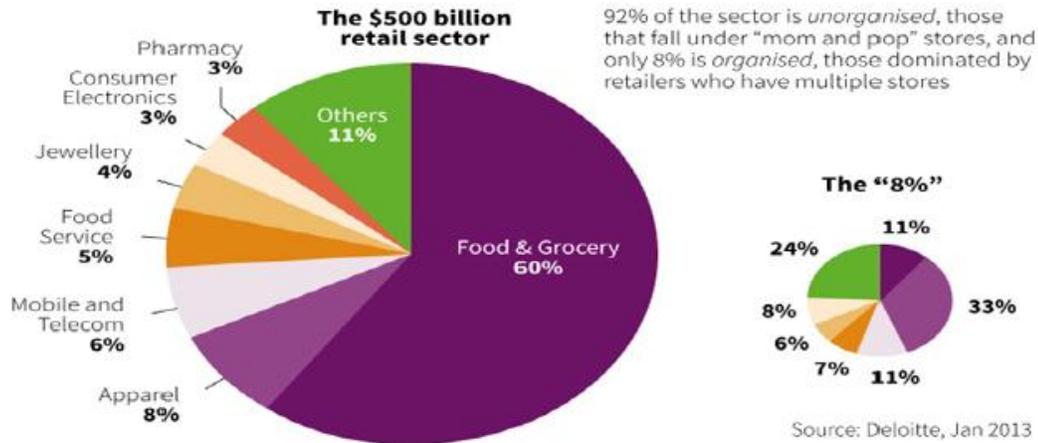


Sources: Economist Intelligence Unit and A.T. Kearney analysis *Data for 2005-2008 is based on estimates

V. Future Scope in Indian Retail Sector

Organized retail is a new phenomenon in India and the market is growing very quickly. The middle class growing very quickly that is important factor which contributing in the growth of Indian retail sector. According to a report up to 2030, it is estimated that currently 21 million household converted into 91million households who are ‘middle class’.

Kamal and Kumar



India's modern consumption level is leads to double within five years to US\$ 1.5 trillion from the present level of US\$ 750 billion. India is set for high growth in consumer expenses. With India's large ‘young’ population and high domestic consumption, the trends for the retail sector look favorable and flexible. Online retail business is also an important format, which has high potential for growth in the near future. The online retail segment in India is growing at an annual rate of 35 per cent, which would take its value from Rs 2,000 crores (US\$ 429.5 million) in 2011 to Rs 7,000crore (US\$ 1.5 billion) by 2015. These days most of the companies want to sell their products online because it attract a mass number of customers.

VI. Challenges & Opportunities

Retailing has seen such a revolution 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 is about casting customers in a story, shimmering their desires and aspirations, and forging long-lasting relationships. As the Indian consumer evolves, they imagine more and more at every time when they steps into a store. Retail today has changed from selling a product or a service to selling a hope, a hope 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 Lime Lite, Marico Kaya Skin Clinic and Apollo Hospital Apollo Pharmacies are examples, to name a few, where manufacturers/service providers merge their own manufactured products and services with those of others to generate value until now unknown. The last mile connect seems to be increasingly lively and experiential. In addition, manufacturers and service providers face an blowing up 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 flourish when market power shifts to organized retail.

(a) The top 10 risks for retail sector

1. Low-growth consumer markets

Despite growth returning to the world economy following the downturn of the last three years, this risk remains considerable. The recession underlined a structural shift to a low-demand growth environment in the developed world: retailing in Europe is “a zero-sum game where a player’s gain is another’s loss.”

2. Regulation and compliance

Traditional regulatory communications centered on the rate case are being supplemented by often-contradictory pressures regarding environmental impact, effectiveness and security of key infrastructure

3. Inability to control costs/rising input prices

As an economist, we interviewed noted, “Low margins mean that costs [have] major effects on profitability.” Seventy-three percent of retail respondents had focused on cutting sales, general and administrative (SG&A) expenses, while 11% had targeted costs of goods and services (COGS).

4. Inability to benefit from e-commerce

The objective of lowering carbon emissions from power generation continues to drive the conversion in the industry, but the failure of governments to meet key emissions objectives means that policy is at a crossroads. Market-based approaches to carbon pricing are losing out to direct regulation of emissions.

5. Wrong price image

Price image can often be more important in determining sales than actual product prices. Adjusting complex pricing and branding strategies to adjust to trends such as shifting consumer behavior is therefore a constant challenge.

6. Supply chain disruptions

Recent “black swan” events have highlighted the liability to supply chain disruptions of companies in both the developed world and in emerging markets. Some companies may elect to reverse some cost saving procedures to attain more supply chain control and flexibility.

7. Inability to penetrate emerging markets

“Especially for Western companies, understanding emerging markets is an undeniable (but blatantly obvious) opportunity,” as one retail panelist noted. However, in order for foreign retailers to operate efficiently in emerging markets, they need to accomplish a critical mass in terms of stores and revenues.

8. Failure to respond to shifting consumer behavior

During the recent recession, consumers reduced consumption, cut back on lavish and impetuous shopping behavior, and increasingly used online price-comparison sites. This change in behavior may be so far off the trend line that a return to pre-recession consumption patterns may no longer be realistic.

9. Sourcing

In a less globalized world in which all retailers in a market tended to source their products from the same country, impulsive location-specific risks had little impact on the relative competitiveness of market players. However, in a globally diverse market where retailers tap into different geographical locations, sourcing risks can have large impacts on costs, prosperity and market position.

10. Volatility in commercial real estate markets

Retailers are impacted both directly and indirectly by real estate market unpredictability. In addition, retailers need to stay ahead of real estate trends, such as the demand for commercial real estate shifting toward more dynamic, smarter, greener facilities.

(b) The top 10 opportunities for retail sector

1. Rising emerging market demand and rise of global middle class

The size of the global middle class is expected to triple between now and 2030. Yet 29% of retail sector respondents to our global survey reported that their efforts to enter these markets had yet to produce any constructive results.

2. New marketing channels and social media

Across the world, the number of people with regular access to the internet has increased considerably. The retailers we surveyed were relatively likely to report that their company had at least begun to connect with social media — 28% said so, and a further 28% said social media was actively being investigated

3. Competitive differentiation via CSR and green branding

The global financial crisis, instead of shifting focus away from corporate social responsibility (CSR), seems to have made it more of precedence. Almost three in four companies in the retail sector consider CSR “as a must.”

4. Multichannel approach

The growth of e-commerce and m-commerce, and recent rapid shifts in consumer behavior, have increased the benefits for retailers that can stay in touch with consumers through several channels.

5. Demographic Change

Demographic changes — aging and migration, for example — are leading to rapid growth in specific market segments. Individuals in developed countries are increasingly looking for to deny the aging process.

6. Private label

The recent recession has augmented sales of private label goods, and many consumers report they will remain loyal to these brands. Retailers have embraced this opportunity by introducing tiered brands for different income brackets and shopper needs.

7. Launching new products and services

Consumer behavior is altering, and stable innovation of products and services from retailers is required as a result. Yet 23% of the retail executives in our survey mentioned that their organization has not been innovative enough.

8. Global urbanization

As one panelist said, “The world’s population is undergoing a historic shift from rural to urban.” Higher consumer incomes and increased customer absorption will present considerable opportunities for the retail sector.

9. Competitive differentiation via local branding

There are significant benefits to local sourcing of products; they are often healthier, fresher and more environmentally friendly. As one retail supervisory commented, “There is a growing trend toward ‘solidarity’ with local regions that can offer brands with lots of consumer kudos.”

10. Enhancing efficiency in the supply chain

The supply chain presents a important opportunity for retailers to reduce inefficiencies and compete on cost, which is more and more crucial as companies in low-growth consumer markets battle for market share

(c) The most important issues was facing the retail sector in 2013

1- Growth and innovation are two of the top issues many retailers are facing and will likely confront in 2013.

They are dealing with both moderate growth in domestic markets and more conversant budget-conscious consumers. Retailers face steady pressure from shareholders. In slowing economies, such as North America and Europe, developing profitable growth strategies will likely be challenging. Perceptive shoppers equipped with Internet-friendly devices will likely continue searching for value in the products they desire at the right prices. Engaging and appealing them to spend more may not be easy. Top line growth is likely to result for those retailers able to drive customer loyalty through innovative products and service offerings and by growing into untapped international markets. When it comes to global expansion, figuring out the right markets to enter and the products and services to offer in these locations can be difficult. Another challenge is that retailers are operating outside their home market and regulatory reduce zone. For example, when doing business internationally, retailers will be required to familiarize themselves with the local rules and regulations and monitor compliance with the U.S. Foreign Corrupt Practices Act. For many retailers, this is often a brand new challenge and one in which they have limited controls in place to address.

Another important step toward achieving growth is the need for retailers to repeatedly re-examine their budgets. A willingness to allocate additional funds to pilot new technologies and experiment with different channels and selling formats is important. This increased level of elasticity and openness to experimentation should be built into retailers’ culture and operating model. Retailers do not naturally budget for research and development, but in today’s environment, it is important to research, prototype and learn quickly. Funding for these activities will likely need to come from other low value-added activities like overhead and aspects of selling, general and managerial costs.

2-Some steps companies in this sector can take to manage through the current climate of economic uncertainty

There are two simple rules that may help retailers mitigate risk and survive weak economic conditions. Rule No. 1: Know the customer and Rule No. 2: Refer to Rule No. 1. In retail, the customer is king. Retailers should focus on connecting with the customer through whatever means their shopper's desire. If you are helping teens, you should be in the middle of the digital and social insurgency and think about the mobile devices in their hands. The focus should be on engaging the customers in a two-way dialog, not just approaching messages to their smart phones or tablets. At the same time, retailers should repeatedly solicit feedback from their customers and use it to provide them with desired products, service and a shopping experience. In addition, retailers should leverage the vast amounts of consumer data that have been at their fingertips in their data warehouses for years. By examining and analyzing traffic patterns in stores, mining loyalty data and monitoring consumers' online and social media behaviors, retailers can be situated to connect more intimately with their shoppers and understand what they desire. A deep understanding of the customer's psyche may enable retailers to up-sell, cross-sell and engage the consumer in a more convincing way. While it may be difficult for retailers to fix a slumping economy, they can certainly work hard to retain their customers and keep them happy.

3- High-performing companies doing to foster innovation and growth

Innovation is in the eyes of the beholder. For grocery retailers, innovation may come in the form of a customized shopping list or app that customers can right to use in stores. At high-end luxury retailers, it may be a 3-D video screen in the window that draws customers into the store. For a discount chain, it may be flexible, easier to understand terms for layaway plans during the holiday season. Irrespective of the type of retailer, successful innovations are meaningful to the customer and add value to the company.

VII. Conclusion

The Indian retail sector has experienced high growth rate over the last decade with a visible shift towards unorganized retailing to organized retailing formats. The retailing industry is moving towards a modern concept. The size of India's retail market was estimated at US\$ 435 billion in 2010. Out of which, 92% of the market was traditional or unorganized retail and 8% of the market was organized retail. India's retail market is expected to grow at 7% over the next 10 years, reaching size of US\$ 850 billion by 2020. Traditional retail is probable to grow at 5% and reach a size of US\$ 650 billion while organized retail is probable to grow at 25% and reach a size of US\$ 200 billion by 2020. Modern retail sector in India could be worth US\$ 175-200 billion by 2016. The Food Retail Industry in India also growing rapidly. The Mobile phone Retail Industry in India has already a US\$ 16.7 billion business, increasing from rate of 20 per cent annually.

The future of the India Retail Industry shows probable with the growing of the market, government policies becoming more favorable and the emerging technologies make facilitating to retailing. Young Indians are purchases mobile phones, fashion, accessories, food and beverages, quick service restaurants, etc who makes the contribution in growth of retail sector. Young Indians have spending more money than before and they have independence, aspirations and a lot of require for products. The Indian retail sector is developing rapidly and those who want to enter in the market now can learn about local dynamics, develop market insights and establish leadership positions. Online retail business is another format, which has high potential for growth in the near future. So finally we conclude that retail sector is grooming with rapidly and also shifting from unorganized sector to organized sector retailing.

The retail sector has played a phenomenal role throughout the world in growing 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 steam engine 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. However, all of them have not yet tasted success because of the heavy original investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

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