

Retail Sector in India : Present Scenario, Emerging Opportunities And Challenges

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I. Introduction

The word “retail” means the sale of goods or commodities in small quantities directly to consumers. Retailing can be defined as a distribution channel function, where an organization, buying the products from supplying firms or manufacturing the products themselves, sells these directly to consumers. Many a times, consumers buy from an organization who is not the manufacturer of the products, rather it is a reseller of the products obtained from others. However, in some cases we may find the product manufacturers operating their own retail outlets in a corporate channel arrangement. Retailing is beneficial to both consumers and sellers. On the one hand it enables the consumers to purchase small quantities of an assortment of products at a reasonably affordable price; on the other it offers an opportunity to suppliers to reach their target market. Through retail promotions they can build product demand and provide consumer feedback to the product marketer.

Thus retail consists of sale of goods and services from individuals or businesses to the end-user. A retailer earns profit by purchasing large quantities of goods and services either from manufacturers directly or through a wholesale and he is a part of an integrated system called the supply chain.

The size of Indian retail market in 2010 was estimated at US\$ 353 billion and by 2014; it is expected to increase up to US\$ 543 billion. Further, the estimated value of current size of Indian retail market is about 500 billion USD and by 2020 its value is pegged to be at 1.3 trillion USD. Over 20 per cent of India's gross domestic product (GDP) is contributed by retail sector and in total employment it contributes eight percent. India is Home to one of the top five retail markets in the world and in retail, India offers immense scope of growth and opportunities. According to A T Kearney's Global Retail Development Index (GRDI) 2013, the global slowdown has impacted India's growth also and as a result India's growth rate fell from a 10-year average of 7.8 percent to 5 percent and in GRDI ranking India slipped to 14th. India's previous low ranking was 6th place in the inaugural Index in 2002 but in 2009 it stood first. However the GRDI report points out some positive factors leading to optimistic expectations. These factors are: strong long-term fundamentals and young, increasingly brand -and fashion-conscious population. The report projects 14 to 15 percent growth per year in retail sector through 2015 and due to more urbanization and more potential new investment by retailers, expects a higher proportion of modern retail which is 7 percent in 2012.

In “Sector profile” of Indian retail sector, FICCI (2011) also projects an optimistic future. An important contributory factor in growth of India's retail sector is growing

middle class which is expected to increase from 21 million households today to 91 million households in 2030. It expects, 570 million people to live in cities in 2030, which is nearly twice the population of the United States today. High and growing domestic consumption is another factor expected to contribute in potential growth of India's retail sector. India's modern consumption level which presently is US\$ 750 billion may double within five years to US\$ 1.5 trillion. Thus, India's huge population with large proportion of "young" population, high potential growth in consumer expenditure, the macro trends for the sector look favorable.

Optimism about high potential of growth in organized retail in India has also been shown by Equity master. The views expressed here indicate that in past, a large part of India's consumption needs was accounted by food but now transition is taking place from traditional retail to organised retailing due to changing consumer expectations, demographic mix, etc. The new generation appreciates mall culture which makes it convenient to shop with multiplicity of choice under one roof (Shop -in Shop). Over the long run, these are expected to be the growth drivers of organized retailing in India. Further, FICCI states that despite the downturns, , the organized retail market in India is growing exponentially due to growing consuming classes resulting from economic growth and organized retail is attracting more and more existing shoppers into its open doors [7] . By 2015, organized retail segment is estimated to grow (at a rate of almost 30% ,) at a much faster pace than the overall retail market which is forecast to grow by 16% in the same period [8] . The Government's initiative to allow 51 per cent foreign direct investment (FDI) in multi -brand retail has been a subject for debate for quite some time now. Indian retail sector has therefore attracted the attention of people from various fields including academia, industry, research organizations etc.

Literature Review

Several studies have been undertaken in the field of retail sector in India. Besides, one may also find articles in newspapers, business magazines relating to retail sector in India. Few of them are mentioned here. Subhadip Mukherjee's study examines the government policies of different countries including India in respect of unorganized and organized retail Sector. The study examines whether, for the small and unorganized retailers to sustain in this big fight the government provide a tight legal framework along with economic support. The study finds that small as well as big domestic retail chains had been helped by the governments of different countries (including India) through formulating appropriate policies over time, by providing capital support and/or formulating strict legislations to restrict entry of foreign retailers in their respective countries. In India, all the regulations regarding retail sector varies across states and their impacts are also heterogeneous since these regulations are still in state level and are being influenced by the existing political parties of different states. An article in Business Standard summarizes the findings of India Ratings regarding

future prospects of Indian retail sector. These findings presents a 'negative outlook' for the retail sector and expects luxury segment to be the worst hit in 2013. According to the Report, for the first time in the history, in 2012, the retail sector registered a single digit growth, and overall revenue is likely to grow at 3-8% year -on- year across large retailer. According to the report, the major factor accounting for sales growth in 2012 was discount offers by companies and the trend is likely to continue in 2013. The agency expects that a sustained reduction in consumer price inflation, coupled with rise in wages may restore the discretionary spending of power of consumers and liberalization of FDI in multi -brand retail could have a positive impact on the retail sector.

A report published by Corporate Catalyst India, focuses on segment analysis of Indian retail market, Key players and profiles of Key players, business models for entry in Indian markets and opportunities and challenges in retailing. Expressing expert's opinion, the report states that in future, the retail industry in India will be a major employment generator. It further says that the market share of organized modern retail being just over 4 per cent of the total retail industry in 2009, it leaves a huge untapped opportunity. Fashion retailing, which commands a large chunk of the organized retail business in India, has indeed been responsible for single handedly driving the business of retail in India. A report titled "Indian Retail Industry: Challenges, Opportunities and Outlook" (2009), published by Dun & Bradstreet, the world's leading source of global business information, describes the Global Retail Scenario, Evolution of organized retail, Size of the Indian retail industry, Industry segmentation, and Regulatory Framework. Deloitte, a business specialist and consulting firm has also published some reports containing several aspects relating to retail sector in India. The report titled "Indian Retail Market Embracing a new trajectory", 2011 covers issues - the size and trends in retail sector, FDI into retail, market opportunities, tax and regulatory structure, sector analysis etc. The report states that although all the retail segments offer growth opportunities for foreign retailers, the largest opportunity in terms of potential market size and scalability is in grocery retailing, particularly for the supermarket and hypermarket formats. However, the large population of 'mom-n-pop'/'kirana' grocery stores is likely to be a force to reckon with for new foreign entrants. An another report published by Delloite titled "Indian Retail Market Opening more doors" (2013) is mainly focused on government policy on multi-brand retail trade -its evolution, policy implications and political landscape with respect to new FDI policy. The report states that various policy conditions for FDI in multi-brand retail makes mass grocery and apparel the two most favorable segments. Multi-brand specialty retail segment such as Beauty & Wellness and Consumer Electronics are still in their nascent stage. Their current market size may not hold a big potential for foreign retailers. Research article titled "Sector Profile", gives a brief description of current status of the retail sector, its future scope and challenges faced by the sector.

1.2 Objectives

1. To analyze the present structure of Indian Retail Sector and changes therein during last few years.
2. To make a segment analysis of Indian Retail Sector in order to know about the major sub-sectors in organized and traditional retail and changes in the relative share of various sub-sectors over last few years and penetration of organized retail in various segments.
3. To understand and analyze the emerging challenges before Indian retail sector in view of recent policy changes by Government of India.
4. To find out some measures/steps need to be taken by Indian retailers to meet successfully the emerging global competition in the sector.

1.3 Methodology

The present study is based on secondary data and information collected from a variety of sources. An attempt has been made in the present study to make a systematic analysis of changes in the size and structure of Indian retail market over last few years. This analysis is useful to understand the expected future changes in the Indian retail market and the implications of recent policy changes adopted by Government of India. Collecting and compiling data and information from various available sources, relevant ratios and percentages have been calculated and analyzed.

II. Structure of Retail Market In India

2.1 Organized and Unorganized (Traditional) Retail

The total retail sector in India can be divided in to organized and unorganized sectors. The Trading activities undertaken by licensed retailers are categorized as organized retailing. Licensed retailers are those who are registered for sales tax, income tax, etc. These include the corporate – backed hyper markets and retail chains, and also the privately own enlarge retail businesses. Unorganized retail or traditional retail on the other hand, include a large number of small retailers that consists of local kirana shops, owner - manned general stores, chemists, footwear shops, apparel shops, paan and beedi (local betel leaf and tobacco) shops, hand - cart hawkers, pavement vendors, etc. Retailing is one of the most prominent industries in developed markets whereas in developing economies the concept had occurred much later. The contribution of US retail sector to the GDP was 31% at current market prices in 2008. In developed economies, organised retail has a 75 - 80% share in total retail while in developing economies; it is the un-organised retail that has a dominant share.

The Indian retail sector is highly fragmented. More than ninety percent of Its business is being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail in India is at a very nascent stage. However, in order to

increase its share in total retail, attempts are being made so as to bring in a huge support unity for prospective new players.

India's retail sector is heading towards modernization. New formats such as departmental stores, supermarkets and speciality stores, Westernized malls are fast appearing in metros and tier-II cities. Below table presents the figures for relative shares of organized and traditional retail in Indian retail market.

Table : Indian Retail Market (Organized & Traditional) percentage share

Year	Organized	Traditional
2005	3.6	96.4
2007	4.1	95.9
2010	5.0	95.0
2012	8.0	92.0
2015 (e)	21.0	79.0
2020 (e)	24.0	76.0

e-Expected

Source:

1. Deloitte (2011), "Indian Retail Market: Embracing a new trajectory", September, (For 2005 and 2015)
2. FICCI(2011), "Sector Profile", 2 December, (For 2010 and 2020)
3. Deloitte (2013), "Indian Retail Market Opening more doors", January, (For 2012)
4. ASA(2012), "A Brief Report on Retail Sector in India", August, ASA and Associates chartered accountants, (For 2007)

2.2 Total Retail Market

In both the years (2007 &2012), Food and Grocery is the biggest contributor in total retail. This segment contributed about 60 percent of total retail. The next two major contributors in 2007 are Clothing & Footwear (9.30%) and Non Institutional Health care (7.95%). Sports goods, Entertainment, Equipment and Books segments together contributed the least (2.71 percent) followed by Beverages (3.55%) and personal care (4.23%) from the bottom end. Furniture, Furnishing, Appliance & Services and Jewellery, Watches etc occupied 6.77% and 5.92% shares respectively in total retail in 2007. In 2012, after Food and Grocery (60%), the next two segments at second and third place, as per their relative share in the retail market are Apparel (8%) & Mobile and telecom (6%). Food service and Jewellery had 5%, 4% shares respectively in total retail market. Consumer Electronics and Pharmacy had equal share (3%) in total retail market.

2.3 Organized Retail Market

Clothing/Apparel segment is the biggest contributor in organized retailing in India in both the years of study. In 2012 it alone accounted for 33 percent of organized retail

followed by Food & Grocery and Mobile and telecom with each having 11 percent share in organized retail.

III. Opportunities And Challenges Emerging In View of Recent Policy Changes

The proposal for permitting FDI in multi-brand retail trading, subject to specified conditions had been approved by Government of India on September 14, 2012. It is to note that in its meeting on 24.11.2011, the Cabinet had earlier approved the proposal but in order to evolve a broader consensus on the subject the implementation of the proposal was deferred. However, after having discussions with State Governments, representatives of consumer associations/organizations, micro & small industry associations, farmer's associations and representatives of food processing industry and industry associations, it has finally been approved subject to the introduction of adequate safeguards. Various sub-segments of the retail industry in India will be affected differently by The FDI policy conditions. One segment might have a low impact of a policy condition while at the same time it may be a major hurdle for another segment.

3.1 Opportunities:

The Competitive environment created through new FDI policy norms offers a variety of opportunities to various stakeholders of Indian retail sector.

3.2 Challenges:

The major challenges which Indian retail sector would face include shortage of skilled manpower, lack of industry status, Policy induced barriers, challenges resulting from Inappropriate planning and forecasting and financial risk due to high and substantial leverage etc.

3.3 Solutions

For the retailers to be able to successfully face the challenges emerging in new competitive environment due to Indian Government's policy of permitting FDI in multi-Brand retail, some of the key solutions as presented are:

- Mastering supply chain to drive competitive advantage
- Product Localization
- Securing the right retail real estate

IV Conclusion

The present study finds that The Indian retail sector is evolving rapidly. The size of India's retail industry is expected to more than double to \$1.3 trillion by 2020. Further organised retail's penetration in India's total retail is on increase. Recent policy changes and greater external liberalization of retail sector will bring many more foreign retailers to India. It is expected that FDI will accelerate the growth of organized retail. India's

huge population with large proportion of young, increasingly brand- and fashion-conscious population, high potential growth in consumer expenditure, growing middle class are some of the factors due to which the macro trends for the sector looks favorable. Organized retail whose share in total retail was 8% in 2012 is expected to assume 24% share of total retail market in India in 2020. Among organized retail segments, Mass Grocery and Apparel are segments growing faster than other segments. In next few years, multi-brand organized retail is expected to expand in specialty stores such as Consumer Electronics, Footwear, Furniture and Furnishing etc. But the requirement of 30% procurement from Indian small industries may prove to be a major bottleneck for FDI in many of these segments. The global heads of retail chains keeping a mum on India in recently held World Retail Congress in Paris supports this viewpoint. While Mexico and the Philippines were being touted as the next big markets for commencing retail ventures, India's policies regarding sourcing and investments have put a question mark on prospective investments. Analyst say that if Walmart indeed pulls out of India, it may not have any impact on consumers as only eight per cent of the total retail is organized. But, confidence on India as a potential investment destination could be greatly marred [24]. However, recently Government of India has liberalized some FDI norms w.e.f. 22 August, 2013 to boost investor's sentiments.

Lastly, the future prospects of Indian retail market are likely to have some macro-economic impact too. Expected positive impact of new policy on back-end infrastructure and better prospects of an efficient supply chain (linking farmers and small manufacturers directly with retailers) will minimize agricultural wastages (especially of fresh foods and vegetables). In agricultural sector, it can be expected that there will be higher use of technology in farming, packaging and storing. This would lead to a reduction in supply chain impediments, thereby, reducing supply side inflationary pressures. Another important macro-economic impact that is expected from expected expansion of modern retail is increasing opportunities of nonagricultural employment for rural youth and a better quality of living for the existing agricultural society. Once individuals become absorbed in retailer operations, they can access more equitable wages and benefits. These changes may make economic growth more inclusive. Further, modern participants in trade are tax-compliant and are large taxpayers. The organized retail sector would facilitate the generation of significant tax revenues through the building of a sophisticated supply chain. This impacts the logistics, transportation, warehousing, freight forwarding and other similar service sectors, all of which contribute to the exchequer through payment of indirect taxes, primarily the service tax.

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