

## Retail Industry in India

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### **Abstract:**

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The retail industry in India gathered a new momentum with the establishment of different international brand outlets, hyper or super markets, shopping malls and departmental store. India is one of the fastest growing retail market in the world. The retail industry in India is highly unorganized and predominantly consists of small, independent, owner-managed shops. The organized retail segment in India is projected to be 9 percent of total retail market by 2015 & 20 percent by 2020. Hypermarkets would be the largest retail segment accounting for 21 percent of the total retail space by 2013-14.

### **Introduction:**

The Indian retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailer, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarket and retail chains, & also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low cost retailing for example local kirana shop owner manned general stores, paan/beedi shops, convenience shops, hand cart and pavement vendors, etc.

Retail has the quickest cycle time from idea, to implementation, to assessment and refinement of any industry. The pace is exhilarating. In the stores feedback is instantaneous; customer buy or not, they are pleased or not, and team members can have an immediate impact. Even at senior levels the feedback is real time. Retailing is such a common part of our everyday lives that it's often taken for granted. Retail managers make complex decisions in selecting their target markets and retail locations; determining what merchandise and services to offer; negotiating with suppliers;

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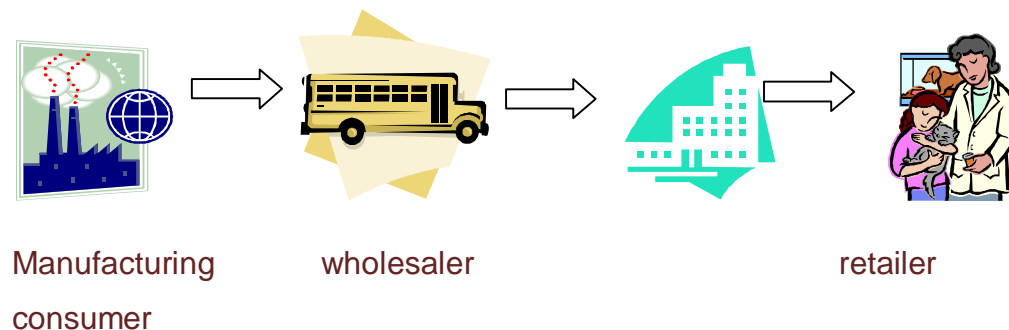
distributing merchandise to stores; training and motivating sales associates; and deciding how to price, promote and present merchandise. Considerable skill and knowledge are required to make these decisions effectively working in this highly competitive, rapidly changing environment is challenging and exciting and offers significant financial rewards.

Retailing is the set of business activities that adds value to the products and services sold to consumers for their personal or family use after people think of retailing only as the sale of products in stores, but retailing also involves the sale of services; overnight in a motel; a doctor's exam, a haircut, a dvd rental; or a home delivered pizza.

Retailing by its very nature, is a dynamic industry. The past decade has been one of turmoil and transition in the world of retail. Some economies roared ahead, and then rebounded. The emergence of the 24/7 culture has had a very strong impact on the changes occurring in many industries. Each passing year has had new and far-reaching effects on the retail industry and this is not surprising considering that retail is an industry which is all about change.

### **Social and economic significance of retailing:**

**1-support for community-** retailing view 1.1 on the previous page illustrates how retailers provide value to their communities and society, as well as to their customers. Retailers are also responsible for developing many innovative products and services. For e.g. A macy's buyer designed the first tea bag:



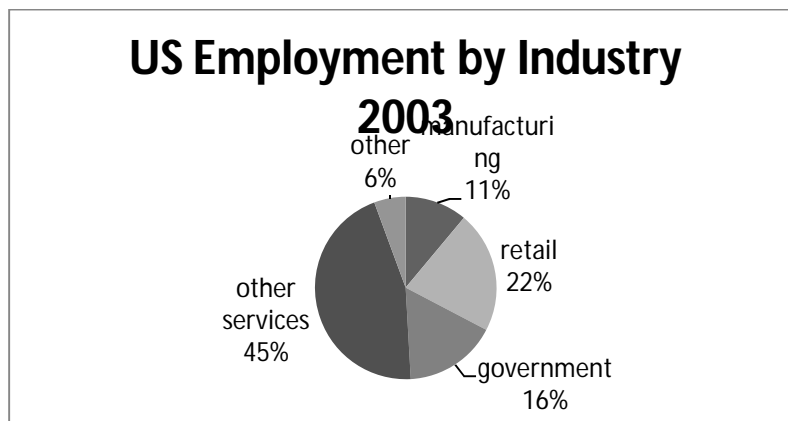
**Table-1.1**

## 2- Retail sales:

Retailing affects every facet of life. Just think of how many daily contacts you have with retailers when you eat meals, furnish your apartment, have car fixed and buy clothing for a party or job interview American retail sales in 2003 were \$ 3.4 trillion-more than 9 % of the us gross domestic product<sup>1</sup>. However, this sales level underestimates the impact of retailing because it does not include the retail sales of services to customer, such as movie tickets, automobile services and repairs, hotel rooms, or legal assistance while the majority of retail sales are made by large retail chains, most retailers are small businesses. There are over 1000,000 retail firms in the united states, and 95% of these firms have only one store, less than 1% of us retail firms have over 100 stores<sup>2</sup>.

## 3- Employment:

Retailing also is one of the nation's largest industries in terms of employment. As exhibit 1.2 indicates over 27 million people were employed in retailing in 2003-approximately 21% of the nonagricultural us workforce. Between 2004 and 2012, the retail industry expects to add 2.1 million jobs, making it one of the largest sectors for job growth in the united states<sup>3</sup>.



**Table-1.2**

1-retail industry indicators, Washington, DC: national retail foundation, August 2004.

2-ibid, p: 33.

### **Retail industry in India:**

In India the retail sector is the second largest employer after agriculture. It is highly fragmented and consists predominantly of small independent and owner managed shops. Besides the country is also dotted with low-cost kiosks and pushcarts. There are some 12 million retailed products. Valued at us \$ 511 billion according to leading commercial real estate advisor; c.b.richard eills findings in 2008, the Indian retail market is the fifth largest retail destination globally.

There has been a boom in the retail trade in India owing to a gradual increase in the disposable income of the middle households. More and more players are venturing into the retail business with new and attractive formats, such as malls, supermarkets discount stores, transforming altogether the traditional bookstore, chemist shops, and furnishing stores. Food sales constitute a high proportion of the total retail sales; it was 60 percent in 2006-2007, worth approximately rs. 8068 billion. Clothing and footwear sales were worth rs. 1356 billion (refer table 1.1). However the non food retail sector registered faster year on year growth than food sales.

India today is a dynamic combination of demanding consumers rising levels of consumption and a growing population base. It has emerged as the fourth largest economy in the world in terms of purchasing power parity (ppp) and is expected to rank third by 2010, after the us and china. According to the global retail development index (grdi) developed by A.T.kearney, for the third year, India has emerged as the nation which has topped the index<sup>4</sup>. India is currently the twelfth largest consumer market in the world. According to a study by mckinsey global

Institute, India is likely to join the premier league of the world's consumer markets by 2025, improving its position to the fifth. The recent growth spurt was achieved primarily through a surge in productivity and is sustainable. As per this report India's contribution

to world growth will be 'high & increasing'. It is believed that 21 million people are employed in the retail sector

In India which is 7% of the total national workforce<sup>5</sup>. It is estimated that an additional eight million jobs will be generated through direct and indirect employment related to the retail sector. Since independence, retail in India has evolved to support the unique needs of our country given its size and complexity. In India, while retail has not yet been accorded the status of an industry, it has been a witness to a large number of formats emerging in the market at a very fast pace.

### **The evaluation of retail in India**

While barter is considered to be the oldest form of retail trade, since independence, retail in India has evolved to support the unique needs of our country given its size and complexity. Haats, mandis, and melas have always been a part of the Indian landscape. They still continue to be present in most parts of the Indian landscape. They still continue to be present in most parts of the country and form an essential part of life and trade in various areas. The pds or the

3- Retail industry indicators, p.17.

4- Growth opportunity for global retailers, the a.t.kearney global retail development index 2007 [www.atkearney.com](http://www.atkearney.com) accessed 9/07/07

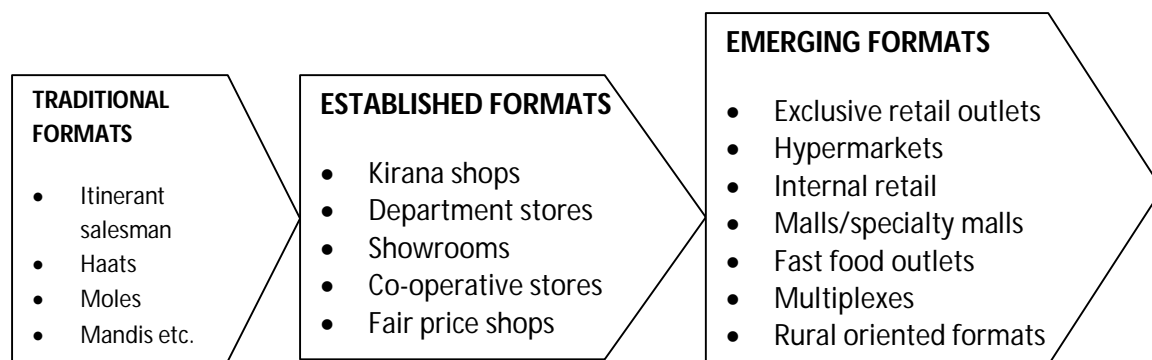
5- The rising elephant: the benefits of modern trade to the Indian economy, cii, pwc paper

Public distribution system would easily emerge as the single largest retail chain existing in the country. The evaluation of the public distribution of gains in the India has its origin in the 'rationing' system introduced by the British during the world war ii. The system was started in 1939 in Bombay and subsequently extended to other cities and towns. By the year 1946, as many as 771 cities/towns were covered. The system was abolishing post war; however, on attaining independence, India was forced to reintroduce it in 1950 in the face of renewed inflationary pressures in the economy.

The khadi & village industries (kvic) were also setup post independence. Today there are more than 7,050 kvic stores across the country<sup>6</sup>. The co-operative movement was

again championed by the government, which setup kendriya bhandars in 1963. In the past decade, the Indian marketplace has transformed dramatically. However from the 1950's to the 80's investments in various industries was limited due to the low purchasing power in the hands of the consumer and the government's policies favoring the small-scale sector. Initial steps towards liberalization were taken in the period of 1985-90. It was at this time that many restrictions on private companies were lifted, and in the 1990's, the Indian economy slowly progressed from being state led to becoming 'market friendly'.

This was in a sense, the beginning of a new era for retail in India. The fact that post liberalization, the economy had opened up and a new large middle class with spending power had emerged, helped shape this sector. The vast middle class market demanded value for money products. The emergence of the modern Indian housewife, who managed her home and work led to a demand for more products, a better shopping ambience, and more convenience and on stop shopping.



**Table 2.1-** indicators of socio-economic change in India

### Drivers of retail change in India:

1- social-economic factors.

India is today a nation which has a large middle class, a youth population which is happy spending and a steady rate of growth of GDP. Table 2.1 indicates the changes that have been visible in India over a period of time.

6- [www.kvic.org.in](http://www.kvic.org.in), accessed 25/04/08.

**Table 2.1**

<b>Indicators</b>	<b>1991-92</b>	<b>1996-97</b>	<b>2006-2007</b>
Life expectancy (in terms of years) male	57.7	60.1	66.1
Female	58.7	61.1	67.1
Infant mortality rate (per thousand births)	78(a)	68(b)	48
Death rate (per thousand)	10	8.7	7.4
Birth rate (per thousand)	28.9	25.72	21.7
Fertility rate (per thousand)	130.3	113	91.4
Literacy rate (%) 15-35years	56	90	100
7 years & above	52	75	90
Per capita consumption of food grains (kg)	182	193.6	225
(a) villages without drinking water	3.0(d)	0	0
(thousand)	150	Neg.	0
(b) villages partially covered (less than 40 ipcd)	27©	50	80
Electricity as source of lighting (% of dwelling)	75 ©	80	95
Rural			
Urban			

## **2- Changing income profile:**

Steady economic growth has fuelled the increase in personal income in India. The middle class forms the backbone of the Indian market story and it is the rising incomes in the young middle-class population that is fuelling its growth. As is seen in table 2.2, the share of persons falling in the deprived category is likely to decrease and it show a

negative growth rate from the period 2001-2002 to the period 2009-10. At the same time, the share of persons falling in the super rich, near rich and almost rich is seen to be increasing, which is reflective of an increasing affluent society and this is also an indicator of consumed. This increase in incomes has happened in both urban and rural India giving rise to what is now popularly termed as the 'great Indian middle class'.

**Table 2-2** the growing Indian middle class

<b>Classification class</b>	<b>income</b>	<b>1995-96</b>	<b>2001-2002</b>	<b>2005-6(p)</b>	<b>200910(p)</b>	<b>Cagr(%)</b>
Deprived	<90	131,176	135,378	132,250	114,394	-2
Aspirers	90-200	28,901	41,262	53,276	75,304	8
Seekers	200-500	3,881	9,034	13,813	22,368	12
Near rich	1000=2000	189	546	1,122	2,373	20
Clear rich	2000-5000	63	201	454	1,037	23
Sheer rich	5000-10000	11	40	103	255	26
Super rich	>10000	5	20	53	141	28
<b>Total</b>		<b>164,876</b>	<b>188,192</b>	<b>204,283</b>	<b>221,945</b>	

P: projected

<sup>1</sup>cagr between the period 2001-02 and 2009-10

Note: income is in rs. '000 per annum at 2001-02 prices, while households are in '000s.

### 3- The age factors:

Compared with several advanced countries where the overall population is aging. India is a very young nation, with more than 70% of its population below the age of 40, and more than 47% of its population below the age of 20. This age distribution is of significance to marketers of goods and services. It partially explains the boom in all Indian cities in consumption of impulse products and leisure-related expenditure in general since the onset of liberalization. According to the census of India, 2001, 54% of the population in India is aged 24 years and below, 35% and 19% of the population in the ages 0-14 years and 15-24 years respectively. The youth population in the age-group 15-24 years is expected to increase from 195 million in 2001 to 240 million in 2011. Out of



the total population increase of 371 million between 2001 and 2026 the share of the share of the work in the age-group of 15-59 years in this total increase is 83%. The increasing youth population which has also started earning early also increases the overall purchasing capacity in the country and has implications on the productivity of labour.

#### **4- The changing role of women and the evolving family structure:**

According to the 2001 census report the population of working women has increased from 22% in 1991 to 26% in 2001. The increased economic independence of women has redefined the rules of social behavior. Apart from an increase in the family income, it has led to a change in the kind of products and services which are demanded. The purchasing habit of a working woman is different from that of a housewife, since the former has lesser time to devote to the household tasks. Working women would prefer a one-stop shop for purchasing their regular products. Also a working women propensity for spending is higher than that of a housewife. The increase in the number of working women will hence drive the need for convenience and will play a major role in the success of many modern retail formats in the country.

#### **Modern retail formats in India:**

Formats that have emerged or become popular in the 1990's are classified as modern retail formats. In terms of professional management and efficiency of integration with the value chain these formats are classified as part of the organized retail sector in India.

#### **Franchised outlets and company-owned stores:**

Economic liberalization, competition, and foreign investment since the 1990s led to the proliferation of brands, with both foreign and Indian companies acquiring strong brand equity for their products. Hence, franchising emerged as a popular mode of retailing.

Employing around 300,000 people, the Indian franchise industry has much more to offer than is generally presumed within franchising there are four rapidly growing-telecom,

retail, food, and education. In the retail sector there has been a constant flow of real estate projects. With 300 malls, 1500 supermarkets, the Indian retail market will be thriving more than ever before.

### **Retailing in rural India:**

An important phenomenon in India's consumer culture is the emerged of the rural market for several basic consumer goods. Nearly three-fourths of Indian population lives in rural areas and raises one-third of the national income. This rural population spread all over the country in about 0.6 million villages. This simply shows the great purchasing potential of rural areas. It has also brought about the much needed volume driven growth for companies, particularly in the fmcg sector.

The national council for applied economic research (ncaer) found in 2001 that the rural market has been growing steadily over the year and is now bigger than the urban market for fmcg-53% share of the total market with an annual size , in value terms, estimated at around rs. 50,000 crore (table 3.5). This is definite boon for the companies who have already reached the plateau in their business curve in urban India and are seeking new ways to increase sales.

**Table 3.5** rural fmcg market: a snapshot

<b>Category</b>	<b>Total size#</b>	<b>%growth*</b>	<b>Rural size (rs.crore)</b>
Toilet soap	7500	13.4	6021
Body talcum powder	940	23.65	793
Toothpaste	2080	23.5	1441
Tea	6500	10.97	4955
Health beverages	908	28.54	601
Electric bulbs	750	9.4	354
Cigarettes	7662	13.09	6442
Packaged biscuits	2500	6.79	1323

#figures in rs crore for 1998-1999.

\*annual growth rates compounded for last five years (1998-2003)

Source: business intelligence unit and nacer 1998-1999

The study observed that there are as many 'middle income and above' households in the rural areas as there are in the urban areas. There are almost twice as many 'lower middle income' households in rural areas as in the urban areas. At the higher income level there were 2.3 million urban households as against 1.6 million households in rural areas (table 3.6)

**Table 3.6** percentage of rural households

Income group	1994-1995	2000-2001*	2001-2006*
>rs 106,000	1.6	3.8	5.6
Rs 77,000-106,000	2.7	4.7	5.8
Rs 50,001-77,000	8.3	13.0	22.4
Rs 25001-50,000	26.0	41.1	44.6
<25,000	61.4	37.4	20.2

\*2000-2001 and 2001-2007 projections are based on 7.2 percent GDP growth

Source: ncaer

According to ncaer projections, the number of middle-and higher income households in rural India was expected to grow from 80 million to 111 million by 2007. Nearly 45% of rural Indians are literate (men 59% women 31%), and 33 % of all villages (0.21 million) are connected by pucca roads. In all, there are more than 3.8 million retail outlets in rural India, averaging 5.8 shops per village. But despite the high rural share in these categories, the rural penetration rates are low, thus offering tremendous growth potential to the companies. (Table 3.7)

**Table 3.7** rural market penetration levels selected goods

Durables	Rural share %	Product	Penetration %
Refrigerator	24.30	Coffee	7
Black and white	62.65	Biscuits	60.1

television	14.64	Toilet soap	91.6
Washing machine	51.51	Toothpaste	35.6
Pressure cooker	2.04	Talcum powder	16.4
Instant water heater	27.43	Hair oil	16.0
Mixer/grinder	28.77	Shampoo	39.8
Colour television	28.56	Razor blade	47.1
Scooter	47.87	Skin cream	15.5
Motorcycle			

### Challenges to organized retail in India:

One of the major challenges for companies, seeking to penetrate rural areas, is to ensure availability of the product or service through the present distribution channel. India's 627,000 villages are spread over 3.2 million sq km; about 700 million Indians live in rural areas, and approaching them is not an easy task with the existing retail infrastructure. Given the poor state of roads, it is an even greater challenge to regularly transport products to the far flung-villages.

The companies with years of experience in the urban markets are facing serious problems in rural areas with respect to distribution strategy. These limitations are attributed to various factors such as the following:

- Inadequate infrastructure with highly dispersed and thinly populated villages that need huge expenditure to establish distribution channels.
- Inability of the small rural retailers to invest in stocks for multiple products or brands.
- Limited or traditional medium of communication and other sales promotion difficulties.
- Low per capita income and social, economic, and cultural differences of the rural masses as compared to the urban segment.
- Low level of exposure to different product categories and product brands.

The problem of physical distribution and channel management adversely affect the service as well as the cost aspects. The existent market structure consists of the primary rural market and retail sales outlet. The structure involves stock points in feeder towns to service these sales outlets at the village level. But it becomes difficult to maintain the required service level in the delivery of the product at the retail level.

### **Challenges in retail business in India**

The retail industry in India is in a phase of transition and hence is likely to face a whole new set of challenges. For one, generating large, free cash inflows for expansion is not easy. Retail margins are already wafer-thin, compared to those in other markets like the Middle East. The management of lifestyle, which runs over 200 stores there, says its net profit margins after tax in India are 4-5 percent compared to about 10 percent in the middle east.

Most retailers are trying to increase margins. For instance, rpg group has started sourcing its fresh produce directly from the farmers. About 350 farmers in karnataka are doing contract farming for rpg.

Organized retail in India is little over a decade old. It is largely an urban phenomenon and the pace of growth is still slow. Some of the reasons for this slow growth are:

- Retail not being recognized as an industry in India: lack of recognition as an industry hampers the availability of finance to the existing and new players. This affects growth and expansion plans.
- The high costs of real estate: real state price in some cities in India are among the highest in the world. The lease or rent of the property is one of the major areas of the expenditure; high lease rentals eat into the profitability of a project.
- Lack of adequate infrastructure: poor roads and the lack of a cold chain infrastructure hampers the development of food and fresh grocery retail in India. The existing supermarkets and food retailers have to invest a substantial amount of money and time in building a cold chain network.
- Multiple and complex taxation system: the sales tax rates vary from state to state. While organized players have to face a multiple point control and tax

system, tax there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi point octroi. With the introduction of value added tax (vat) in 2005, certain anomalies in the existing sales tax system causing disruptions in the supply chain are likely to get corrected over a period of time.

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