



GROWTH AND CHALLENGES OF INDIAN RETIAL SECTOR: A CASE STUDY

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Abstract

The Indian Retail sector is one of the fastest growing sectors in India, having the world's second largest towards consumer market. In India retail sector is one of the major pillars of Indian economy who comprises 14 to 15 percent of its GDP. Retailing has the major business activities in India and leading sources of employment generation in India. Due to extreme change in the behaviour, taste and preferences of the consumer, and the growing economy, earning capacity, less time and fast track life makes the emerging challenge in the retail sector of India. The Indian Retail sector mainly divided into two parts i.e. unorganised and organised. Organizes retail has limited market share in comparison of unorganized retail sector. The main focus 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 and to make some efforts relating to study of growth and challenges.

Introduction

The Word 'Retail' derived from the French word Retailer, which refers to "cutting off, clip and divide" in terms of tailoring. First of all it was recorded as a noun with the meaning of a "sale in small quantities" in (French). Its literal meaning for retail was to "cut off, shred, paring". Retail is the final stage of any economic activity. By virtue of this fact, retail occupies an important place in the world economy. According to Philip Kotler, Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non-business use. A retailer or retail store is any business enterprise whose sale volume comes primarily from retailing. These are the final business entities in a distribution channel that links manufacturers to customers. Manufacturers typically make products and sell them to retailers or wholesalers. Wholesalers resell these products to the retailers and finally, retailers resell these products to the ultimate consumers.

Any organization selling to final consumers whether it is a manufacturer, wholesaler or retailer-is doing retailing. It does not matter how the goods or services are sold (by person, mail, telephone, vending machine, or internet or where they are sold-in a store, on the street, or in the consumer's home). A Retailer thus, provides value creating functions like assortment of products and services to the consumers, breaking bulk, and holding inventory and provides services to consumers, manufacturers and wholesalers, thus, may be understood as the final step in the distribution of merchandise, for consumption by the end consumers. Simply, any firm that sells products to the final consumer is performing the function of retailing.

Retailing broadly involves that Understanding the consumers' needs, developing good merchandise assortment and display the merchandise in an effective manner so that shoppers find it easy and attractive to buy.

Definition and Scope of Retailing

Retail Industry, one of the fastest changing and vibrant industries in the world, has contributed to the economic growth of many countries. Retailing can be defined as the buying and selling of goods and services. It can also be defined as the timely delivery of goods and services demanded by consumers at prices that are competitive and affordable.

Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer. The industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today.

Research Methodology

The present research is prepared based on secondary data and require information is collected from various edited books, journals, news papers, government publications and various reports etc.

Review of Literature

Mohanty & Panda (2008) expressed that Indian retailing sector occupies important place in the socio-economic growth strategy of the country. India is witnessing retailing boom being propelled by increasing urbanization, rising purchasing power parity (PPP) of ever growing India's middle class, changing demographic profiles heavily tilted young population, technological revolution, intense globalization drive etc. **Kearney (2007)** explains that the retail sector provides a unique platform to India .Government, both central and state, need to engage with the sector and utilize its potential for social development. So the Indian market and its consumers poised for a retail consumption explosion that will continue for future. **Delloite (2013)** in his study, he mainly focused on government policy on multi-brand retail trade-its evolution, policy



implications and political landscape with respect to new FDI policy, report states that various policy conditions for FDI in multiband retail makes mass grocery and apparel the two most favourable 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. **Mohanty & Panda (2008)** opined that the retailing as a sector of India occupies important place in the socio-economic growth strategy of the country. India is witnessing retailing boom being propelled by increasing urbanization, rising purchasing power parity (PPP) of ever growing India's middle class, changing demographic profiles heavily tilted young population, technological revolution, intense globalization drive etc. **Nagesh (2007)** in his study he describes that Indian retailing will see a sea of change in the next five years, driving consumption boom never seen in the history of any country. From a drout situation we will see a flood of modern retail, So Indian retail will be on a steady ground of sustained growth year after year and thereafter.

Objectives

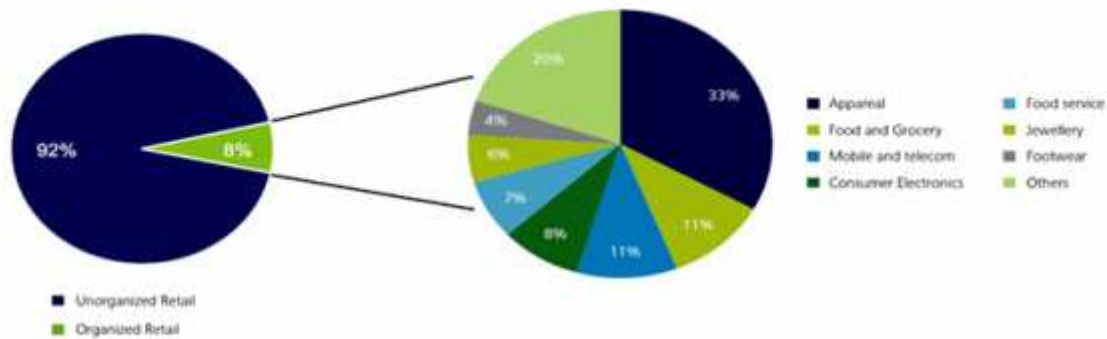
The present study aimed to study the structure and formats of the Indian retail industry, understand and analyze the Indian retail sector and discuss growth and challenges.

Structure of Indian Retail Sector

The Indian retail industry is segregated into two sectors: organized and Traditional or unorganized retailing. Organised retailing is a recent development in India. Due to changes in the socio-economic factors there is a growth of organised retailing. The modern retail structure is characterised by Malls, Chain shops, departmental stores hyper markets, super market etc. It refers to trading activities undertaken by the licensed retailers i.e. those who are registered for sales tax and income tax. In India organised retailing constitutes a very little share of 4.6 percent of total retail market.

The unorganised retailing sector dominates the total retailing activity in India. In India it constitutes around 95.4 percent. It includes thousands of small retail shops spread over the entire geographical area of the country. It refers to the traditional format of retail industry. These sectors are mainly characterized by small retailers and are subject to tax evasion and lack of labour law system. Example: Local kirana shops, pan bidi shops etc.

At Present in India unorganized retail Sector occupies majorly 92 percent i.e. apparel is 33 percent, food and Grocery 11 per cent, Mobile and Telecom is 11 per cent, consumer electronics 8 per cent, Food Services 7 per cent, Jewellery 6 percent, Footwear 4 and Other occupied 20 per cent and the remaining only 8 per cent is organised sector,



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

The Indian retail sector is set to grow rapidly with a gradual shift toward organized retailing formats. Organized retail penetration is expected to increase to 10% per cent in 2018 at a robust CAGR of 19-20% during the same period. This will be driven by a combination of demand, supply and regulatory factors, which are expected to be the growth engines of the Indian consumer and retail market.

The Indian retail market is growing at a very fast pace of about 20% and has a market size of US\$ 600 billion in 2015. The retail sector is the second largest employer after agriculture. The retail industry alone managed to generate more than 35 million job opportunities.



Indian retail formats

- **Mom-and-pop stores:** These are generally family-owned businesses catering to small sections of society. They are small, individually run and handled retail outlets.
- **Category killers:** Small specialty stores have expanded to offer a range of categories. They have widened their vision in terms of the number of categories. They are called category killers as they specialize in their fields, such as electronics (Best Buy) and sporting goods (Sport Authority).
- **Department stores:** These are the general merchandise retailers offering various kinds of quality products and services. These do not offer full service category products and some carry a selective product line. These stores have further categories, such as home and décor, clothing, groceries, toys, etc.
- **Malls:** These are the largest form of retail formats. They provide an ideal shopping experience by providing a mix of all kinds of products and services, food and entertainment under one roof. Examples are Sahara Mall, TDI Mall in Delhi.
- **Specialty Stores:** The retail chains, which deal in specific categories and provide deep assortment in them are specialty stores. Examples are RPG's Music World, Mumbai's bookstore Crossword, etc.
- **Discount stores:** These are the stores or factory outlets that provide discount on the MRP items. They focus on mass selling and reaching economies of scale or selling the stock left after the season is over.
- **Hypermarkets/ Supermarkets:** These are generally large self-service outlets, offering a variety of categories with deep assortments. These stores contribute 30% of all food and grocery organized retail sales. Example: Big Bazaar.
- **Convenience stores:** They are comparatively smaller stores located near residential areas. They are open for an extended period of the day and have a limited variety of stock and convenience products. Prices are slightly higher due to the convenience given to the customers.
- **E-tailers:** These are retailers that provide online facility of buying and selling products and services via Internet. They provide a picture and description of the product. A lot of such retailers are booming in the industry, as this method provides convenience and a wide variety for customer. But it does not provide a feel of the product and is sometimes not authentic. Examples are Amazon.com, Ebay.com, etc.
- **Vending:** This kind of retailing is making incursions into the industry. Smaller products such as beverages, snacks are some the items that can be bought through vending machines. At present, it is not very common in India.

Key drivers of the Indian Retail Industry

- Emergence of nuclear families
- An increase in the double-income households trend
- Large working population
- Reasonable Real estate prices
- Increase in disposable income and customer aspiration
- Demand as well as increase in expenditure for luxury items
- Growing preference for branded products and higher aspirations
- Growing liberalization of the FDI policy in the past decade
- Increasing urbanisation,
- Rising affluence amid consumers.

Foreign Direct Investment in Indian Retail Industry

FDI in retail industry means that foreign companies in certain categories can sell products through their own retail shop in the country. At present, Foreign Direct Investment (FDI) in pure retailing is not permitted under Indian law. Government of India has allowed FDI in retail of specific brand of products. Following this, foreign companies in certain categories can sell products through their own retail shops in the country. 100 per cent of the FDI has been permitted, under the government approval route, in single brand product retailing as per DIPP guidelines. For projects involving FDI beyond 51% it is mandatory to source at least 30 per cent material from indigenous small and cottage industries, having a maximum investment of about 5 crore in plants and machinery.

In multi brand retail Central government has permitted 51 per cent FDI. However final decision rests with the state government. States that are led by Congress party like Delhi, Assam, Haryana, Rajasthan foreign supermarkets will be allowed to set up their ventures. However states led by BJP like Gujarat, West Bengal Kerala etc. will not permit 51 per cent FDI in multi brand retail.

Growth Trends and Challenges in Indian Retail Sector

- Heterogenous Market - highly diverse demographic of the Indian consumer.



- Poor Supply Chain infrastructure; lack of storage and Transport logistics often leading to huge wastage.
- Shortage of skilled manpower; the industry facing a severe shortage of talented professionals.
- Lack of Industry status; because of lack of 'Industry Status' organized retailers in India faces difficulties in raising finance from banks to fund their expansion plans.
- Policy induced barriers; In India organized retail is governed by the Ministry of commerce on the one hand through retail policy formulation and by the Ministry of Consumer Affairs on the other in terms of license and legislations. There is a need to govern retail operations through a single apex body.
- When compared to international the Indian retail sector productivity low, total retail employment in India from both i.e. organized and unorganized very low.
- Unfavorable conditions of Taxation Laws.
- Lack of Retail Space and Frauds in Retail.

Growth Trends

- Over the past five years Indian retail industry in growing trend, its economy and accounts for 14 to 15 per cent of its GDP.
- The Indian retail sector, currently estimated at around US\$490 billion, is project to grow at a Compound Annual Growth Rate (CAGR) of 6 per cent to reach US\$ 895 billion by 2023.
- Favourable demographics, increasing urbanisation, nuclearisation of families, rising affluence amid consumers, growing preference for branded products and higher aspirations are other factors which will drive retail consumption in India.
- The Indian retail sector is highly fragmented and the unorganised sector has around 13 million retail outlets that account for around 95-96% of the total Indian retail industry. However, going forward, the organised sector's growth potential is expected to increase due to globalisation, high economic growth, and improved lifestyle.
- The growing middle class is an important factor contributing to the growth of retail in India. By 2030, it is estimated that 91 million households will be 'middle class', up from 21 million today. Also by 2030, 570 million people are expected to live in cities,

Conclusion

The present study reveals 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. Organized Retail is emerging as the new phenomenon in India and despite the slump, the market is growing exponentially, India's huge population with large proportion of young, increasingly brand- and fashion-conscious population, high potential growth in consumer expenditure, the growing middle class is an important factor contributing to the growth of retail in India. By 2030, it is estimated that 91 million households will be 'middle class', up from 21 million today. Also by 2030, 570 million people are expected to live in cities; it 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. 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 the retail sector is grooming with rapidly and also shifting from unorganised sector to organised sector retailing.

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