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India's Retail Sector: Perspective and Prospects

Organised and Unorganised Status

ABSTRACT

Retail is India's largest industry accounting for over 10 percent of GDP and around 8 percent employment. Rural retail market is expected to grow by 29% to Rs.1,80,000 crore by 2010. Retailing consists of all activities involved in selling of goods and services to consumers for their personal, family or household use. The retail sector in India is highly fragmented with organized retail contributing to only 2 percent of total retail sales. Today in India we see a high rise in the purchasing power and growth of 'middle class' which is real consumer. The opportunities in retail industry in India will increase since Indian retailing is on the threshold of a major change. Large scale organized players are fast making in roads replacing traditional stores with modern store formats. This paper analyzes the present status of Indian retail sector in the organized as well as unorganized sectors and highlights demand drivers of retailing in India as well as the opportunities for global players. The study gives some suggestions to drive economic growth and to consolidate the gains.

1. INTRODUCTION

Today the retail sector is defined as a sum up of all economic activity that satisfies individual needs. The organized retail management in India is presently witnessing a phenomenal growth. Retailers are at the end of the supply chain. India is one of the most attractive retail markets in the world and has been ranked world No. 1 in the A.T. Kearney Global Retail Index 2006. The organised retail industry is expected to grow at 27 percent annually, growing from US \$ 330 bn in 2007 is expected to reach at US \$427 bn by 2010 and \$637bn in 2015.

India is the fastest growing market in Asia pacific for international tourist spending, according to latest Visa Asia Pacific release. The economy is growing by over 8% a year and India's growth rate can actually exceed that of China by 2015. The Indian economy is expected to grow larger than Britain's by 2022 and Japan's by 2032 to become the third largest economy in the world after China and US and finally become the second largest economy after China by 2050. Retailing, no

doubt is a strong pillar of the Indian economy and the sector is offering huge opportunities of employment. The main objective of the present study is to highlight the present scenario of the retailing sector in India. Opportunities for global players have also been discussed. The study also provides some suggestions. The study is based on data and information collected from different sources and the work is classified, tabulated and analyzed statistically.

2. RETAIL INDUSTRY: INDIAN SCENARIO

Retailing the biggest private-sector industry in the world is one of the prime movers of an economy. The industry is also the major employer in most economies upto 16 per cent in the US, 15 percent in Brazil, 12 percent in Poland and 7 percent in China. The Indian retail trade with its enormous size employing 21 million persons, which is about 8 percent of labour force. The retail sector in India is witnessing a huge revamping exercise as traditional markets have way for new formats such as departmental stores, hyper markets, super markets, food services,

specialty stores and western-style malls have begun appearing in metros and second rung cities alike introducing the Indian consumer to shopping experiences like never before. Images India Retail Report 2007 witnesses for total Indian retail value (2006) amounted at INR 12000 billion (\$270 billion) and the organized sector increased its share to 55000 crore (\$12.4 billion) i.e. 4.6 percent of the total Indian retail trade (Table 1)..

3. ORGANISED VS UNORGANISED

Retailing can be divided in to two parts – organized and unorganized sectors. Under organized sector of retailing, trading activities are undertaken by licensed retailers. These retailers are registered and they pay taxes regularly. This includes departmental stores, malls, corporate based hypermarkets, especially stores as well as off price stores.

The share of total organized retailing in India is as low as around 2% compared to other developing economies (where it is 20 to 25%). Its share in USA is 80%, 20% in China, 40% in Thailand, 50% in Malaysia (Table 2). As the consumer spending continues to grow at double digit figures, leading retailers have recorded an increase in sales between 50 to 100 percent in the calendar year 2006 over the previous year.

India Retail Report (2007) explains the total private consumption touched INR20,000 billion (US \$445 billion) in the calendar year 2006 with organized sector accounting for INR 55,000 crore (\$12.4 billion) business increasing share to 4.6% of the total Indian retail value that stood at INR 12000 billion (\$270 billion). Organised retailing is projected to grow at the rate of 42 percent .

Table - 1
Indian Retail Market (2006) with Retail segments

Indian Retail-2006 (at current price) Retail Segment	Indian Retail Market 2006			
	Indian Retail Value (Rs Crore)	Organized Retail (Rs. Crore)	% Organised in 2006	% share in total organized pie
Clothing, textile & Fashion accessories	113,500	21,400	18.9%	39
Jewellery	60,200	1,680	2.8%	3
Watches	3,950	1,800	45.6%	3
Footwear	13,750	5,200	37.8%	9
Health and beauty care services	3,800	400	10.6%	1
Pharmaceuticals	42,200	1,100	2.6%	2
Consumer Durables, Home appliances/ equipments	48,100	5,000	10.4%	9
Mobile handsets				
Accessories and services	21,650	1,740	8.0%	3
Furnishing, utensils, Furniture-Home & Office	40,650	3,700	9.1%	7
Food and Grocery	743,900	5,800	0.8%	11
Catering services (F&B)	57,000	3,940	6.9%	7
Books, Music & Gifts	13,300	1,680	12.6%	3
Entertainment	38,000	1,560	4.1%	3
Total	1,200,000 \$270bn	55,000 \$12.4bn	4.6 %	

Source : Images India Retail Report 2007

in 2008. Organised retail in India has the potential to add over INR 2000 billion (\$45 billion) business by the year 2010 (Table 1).

4. ORGANISED Vs. UNORGANISED

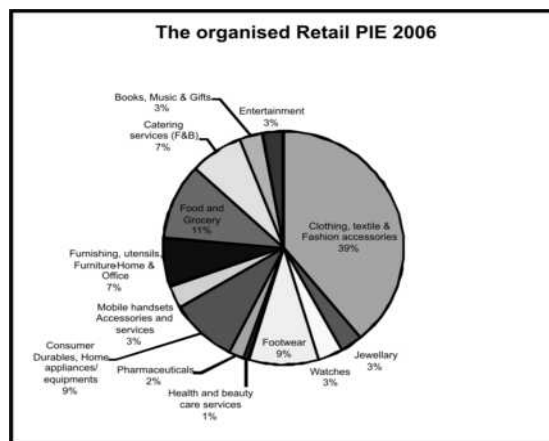
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Table - 2
Organised Retail Trade in Different Countries

Countries	Retail Trade (%)	
	Organised	Un-organised
USA	80	20
Malaysia	50	50
Thailand	40	60
Philippines	35	65
Indonesia	25	75
South Korea	15	85
China	20	80
India	02	98

Source : CRISIL & self evaluation

As the consumer spending continues to grow at double digit figures, leading retailers have recorded an increase in sales between 50 to 100 percent in the calendar year 2006 over the previous year. India Retail Report (2007) explains the total private consumption touched INR20,000 billion (US \$445 billion) in the calendar year 2006 with organized sector accounting for INR 55,000 crore (\$12.4 billion) business increasing share to 4.6% of the total Indian retail value that stood at INR 12000 billion (\$270 billion). Organised retailing is projected to grow at the rate of 42 percent in 2008. Organised retail in



India has the potential to add over INR 2000 billion (\$45 billion) business by the year 2010 (Table 1). Looking at the organised retail pie of clothing and accessories is of 39% of the total consumption expenditure. The organized pie of different verticals like food and grocery were 11%, footwear 9%, consumer electronics 9% and jewellery 3%. This all shows that all the verticals have a great opportunity and need for more attention.

Unorganised Retailing refers to low-cost retailing. It includes the general stores, kirana shops, paan/bidi shops, pavement vendors, handcarts etc. India has a big share and constitutes 98% of total trade. In China it is 80%, South Korea 85%, Indonesia 75%, Philippines 65% and USA it is only 20% (Table 2). Only Malaysia has the equal share of 50:50 in organized as well as in unorganized retailing (Traditional retailing).

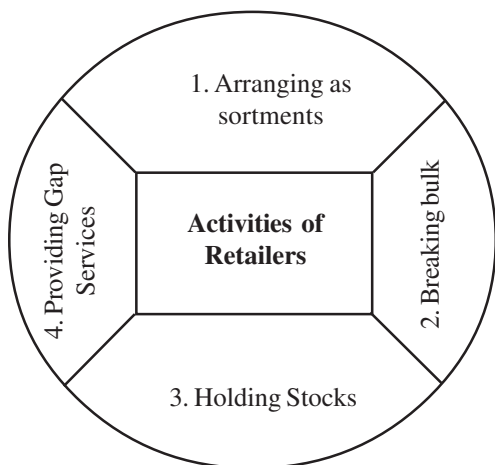
5. DEMAND DRIVERS FOR RETAIL BUSINESS IN INDIA

With the largest young population in the world over 890 million people below 45 years of age, India is indeed a resplendent market. India has more English speaking people than in the whole of Europe taken together. Its 300 million odd middle class, the ‘Real consumer’s is catching the attention of the world. As the economy grows so does India’s, middle class. It is estimated that 70 million Indian earn a salary of over INR8,00,000 (\$18,000) a year, a figure that

is set to rise 140 million by 2011. The number of effective consumers is expected to swell to over 600 million by 2010 sufficient to establish India as one of the largest consumer markets in the world. The other important factors includes, liberalization of Indian economy, shift of consumer demands and internet revolution, etc.

6. ACTIVITIES PERFORMED BY RETAILERS

Retailers undertake various business activities and perform functions that add value to the offerings they make to their target segments. Retailers provide convenient location, stock and appropriate mix of merchandise in suitable packages in accordance with the needs of customers. The four major activities shown in figures carried out by retailers are:



7. OPPORTUNITIES FOR GLOBAL PLAYERS

Favorable demographic and psychographic changes relating to India’s consumer class, international exposure, availability of quality retail space, wider availability of products and brand communication are some of the factors that are driving the retail in India. Over the last few years many international retailers have entered the Indian market on the strengthen of rising affluence levels of the young Indian population along with the heightened of

awareness of global brands and experiences of shopping globally. Development of India as a sourcing hub shall further make India as an attractive retail opportunity for the global retailers. Retailers like Wal-mart, GAP, Tesco, JC Penney, H&M, Sears (Kmart), etc. are stepping up for sourcing their requirements from India. Most opportunities exist across product categories, food and grocery with ‘wet groceries’, i.e. fresh fruits and vegetables, are most promising in Indian retail. Opportunities also lies i.e. jewellery and accessories, consumer durables, catering services, music and gifts, etc. Currently the fashion sector in India commands a lion share is organized retail pie.

8. FOREIGN DIRECT INVESTMENT (FDI) IN RETAIL SECTOR IN INDIA

Foreign direct investment (FDI) has ignited ambitions in many of the global players to be among the first movers into ‘virgin’ retail territory i.e. India. At present no FDI is permitted in retail trade in India. Government allows 51% foreign investment in single brand retail. FDI is also allowed in wholesale business. Single brand retailer such as Louis, Fendi, Nike, Toyota etc. can now operate on their own. The policy makers continue to explore areas where FDI can be invited with out hurting the interest of local retail community. Metro, the world’s forth largest retail chain is already operating the cash-and-carry whole sale mode.

9. CUSTOMER RELATIONSHIP MANAGEMENT (CRM) IN RETAIL SECTOR

Customer relationship management may be referred to as business philosophy, a set of strategies, programme and systems, which focus on identifying and building loyalty with retailers most valued customers. Relationship marketing focuses on using relational strategies to acquire customers,

retain them and enhance relationship with them. In fact, as Pareto's Law, 80% of the total sales comes from 20% of the customers and thus CRM attempts to optimize these sources for the retailer by remaining the most profitable of the customers.

10. RETAIL MANAGEMENT STRATEGY

A sound retail management strategy guides a retail firm's business activities and helps it to develop a competitive advantage. These includes-

- Defining the nature of business in terms of goods and service category and specific orientation.
- Long term and short term objectives are to be set for sales and profit, market share and image, etc.
- Decide on the customer market group characteristics i.e. income level, age or sex and needs about product and brand preferences.
- Implementation of an integral strategy that combines different factors like store location, product assortment, pricing, promotion and displays to achieve objectives.
- Regular evaluation of performance for correcting weaknesses and problems as they arise.

11. FACTORS AFFECTING RETAIL SECTOR STRATEGIES

1. Customers today are more price sensitive and attach more value to quality.
2. Access to information with media penetration in almost every home and exposure, demands are changing.
3. Greater sophistication, accessibility to additional information and concern for value have led customers to be engaged in buying behaviour seeking outlets which sell more customized.

The retailing concept covers further broad areas and is the essential part of retailing strategy. It includes (a) customer orientation (b) goal orientation (c) value driven

approach and (d) coordinated effort. The retailing concept can be used to measure the retailer's performance through three parameters – the retail experience, customer services and relationship retailing.

12. FUTURE PROSPECTS

The Retailing is definitely a sunrise sector in India with bright prospects in future. But the challenge is to retain the competitive advantages without limiting the interest of local retail community. Due to much unprecedented awareness and a youth-heavy customer base, India is the 'Promised Land' for the different brands and retailers. Retail is India's largest industry accounting for over 10% of GDP and around 8% employment. Government of India is going to create 25 lakh more jobs by 2010. This increase in jobs opportunity will support the organized retail to produce quality employment. Rural retail market is expected to grow by 29% to Rs.180,000 crore by 2010.

13. CONCLUSION AND SUGGESTIONS

The Indian retail sector is emerging owing to the increasing income levels and career families with high disposable incomes. Effective promotional strategies are most significant for expanding this sector. The retail organization of the future will have to be poised to take a much more proactive stance to the retailing and shopping behaviour of its customers. The time is just right for the Government to push for liberalization of the retail sector in India. Considering the cost of building a brand or a retail concept, it will be wise of Indian companies to tie up with more and more global brands and for retailers to expand the Indian market and give more variety of products to Indian consumers. Government should encourage the entry of corporate in to this booming sector. There are some

suggestions to enable Indian retail sector more effective on the process of making road towards speedy growth of economy:

- The power of collaborations and best shared practices is the need of the hour to attain international successful strategies merged with local knowledge to provide shape and direction to the horizon of Indian retail sector.
- In order to strengthen the multiplier effect of the growth in organized retailing upon the overall employment situation, a proactive governmental support mechanism needs to evolve for nurturing the sector.
- Excellent customer services must be provided for both to achieve a sustainable competitive advantage and to establish/maintain the customer loyalty.
- Information Technology (IT), a vital part of retailing, needs a long term investment as

technology can play an important role in differentiating and to meet the demanding needs of discerning customers.

- Foreign direct investment should be allowed in a selective and phased manner.

An appropriate architecture for effective crises management must be evolved to reap all the benefits of globalization and liberalization.

The world is now looking at India as the nation of future. More significantly India is well on its way to be emerging as a first world economy in the fields of information technology (IT), biotechnology, pharmaceuticals and automotive sector, pushing the thrust now on to the retail sector to facilitate the creation of a new surging modern India.

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