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The Rebirth of Small Independent Retail in India

ABSTRACT

Manufacturing industry may well be on the verge of a major paradigm shift. The emergence of firms producing at low-wage economies has quashed low price strategies for most European and American manufacturers. US manufacturing industries are realizing that global prominence in manufacturing can be achieved only through innovation and thus resulted in the birth of 'Agile Manufacturing System' in the 21st century. Agile manufacturing is the process of accomplishing the ability to successfully market low-cost, high quality products with short lead times that provide enhanced customer value through customization. A customer has to be treated as an individual asset. They expect low volume, high quality and require small quantities of highly custom, design-to-order products, and where additional services and value-added benefits like product upgrades and future reconfigurations are as important as the product itself. Ford, the leading automobile industry is paving a new dimension to Agile Manufacturing system. This paper throws light on feasibility of agile especially in automobile manufacturing sector.

1. INTRODUCTION

Retailing, the biggest private-sector industry in the world, is one of the prime movers of an economy. One of the significant driver for formal estate and urban development, it accounts for 10 per cent of the gross domestic product (GDP) of most developed countries. The Indian retail sector is thriving with a three year compounded annual growth rate of 47%, making it the fastest growing sector in the Indian economy. Globally retailing is big business worth a staggering \$6.6 trillion according to a recent report published by McKinsey & Co. in partnership with the Confederation of Indian Industry (CII). Most of it is accounted for by organized retail. In India, retail sector is the second largest source of employment after agriculture. There are some 12 million retail outlets in India, half of which are low cost kiosks and push carts. Over 8 per cent of India's population is engaged in retailing (compared to 20 per cent in the US). The Indian retail industry is estimated at about \$300 billion (approximately Rs. 12,000 billion), and is forecast to grow to \$427 billion (approximately Rs. 1,70,800 billion) by 2010 and to \$637 billion (approximately Rs. 2,54,800 billion) by 2015.

billion) by 2015.

2. RESEARCH METHODOLOGY

The research design is descriptive in nature basing upon secondary data. However, an effort is made to collect primary data by taking information from competent persons off and on.

3. THE FEAR AND THE HOPE

Trends, challenges, opportunities and the drivers of change. In preparing this white paper, we spoke with a number of consultants, academic experts and retail association executives who work and talk with small independent retailers every day. They identified a number of broad industry trends and specific challenges faced by independents. They also spoke about potential opportunities that can be realized if small independents take advantage of their strengths, recognize the inherent limitations of their larger competitors and position themselves in a differentiated way. There were a number of broad, universal trends and changing realities of doing business today that were identified and discussed.

a) Personalization: advancements in communications technology have created a

more personal experience. The customization and specialization of products have created a more personal experience. New media that give consumers new choices that match their interests have created a more personal experience. Access to information has created more personal experience. Alan Toffler has called it “demassification.” This important trend bodes well for small independents that can leverage their inherent advantages of flexibility and customer intimacy to create a more personalized experience for their customers. While technology permits sophisticated data based marketing and promotions, small independents are still the best poised to get to know their customers individually as they are often a personal part of their lives.

b) Value equation: Price is not the only factor in a value determination. Speed, convenience, service and knowledge all play an increasingly important role. Both large and small retailers continue to redefine their value propositions with better prices, better selection, better service and better products. A value proposition refers to the unique characteristics that distinguish your business from the competition. It defines the intrinsic worth of your business’s offering to customers. A strong value proposition communicates a clear message to your marketplace about why potential customers should buy from you. It defines what your customers will get for their money.

c) Increased competition: Competition continues to increase in number and intensity. We are over-stored with an explosion of products displayed in an ever-increasing amount of retail square feet per capita in the India. The big retailers continue to get bigger. They employ market share growth strategies and communicate value propositions that are designed to dominate either a product category or customer segment. Increased size and scale leads to increased efficiencies that in turn fuel additional growth. The small store must find the niches in the market not served

or find ways that are more appealing, more knowledgeable or more time saving than their competitors. Another critical aspect of competition is the fact that the marketplace is becoming truly global in scope. The Internet is blurring the lines of traditional market areas. Competition for small independents can now come from anywhere, big chains or other small independents halfway across the country or halfway around the globe. This fact is particularly problematic for small independents that sell widely distributed branded goods—goods that can default to price.

d) Changing demographics: Three powerful demographic trends will cause profound change: The aging of America—It is predicted that the number of Indians age 55 and older will almost double between now and 2030. The aging of India will present many opportunities for small independents that may choose to target this growing segment. New products, new services and new retail concepts will be introduced to capture this growth. Many of the most popular traditional brands are having a tough time appealing to this group, who seem immune to traditional marketing messages and who gravitate to all things new—to brands that understand them and speak their language. Their medium of choice is the Internet. It drives diversity and the ability to know what’s new in an instant. Companies unable to relate to this group will obviously miss out on a huge potential opportunity. These three demographic trends provide specific target markets for small retail niche opportunities in which some retailers can find a home.

e) Community activism: There is a growing national trend of community resistance to unrestrained retail development in order to protect local community personality, feel and values. This trend is intensifying as large national chains are rediscovering downtown areas, looking for new growth opportunities by following

population migrations. Protectionism from increased competition has often proved unproductive. First, consumers will find their way to where they want to shop—big box, specialty store, or national chain. Secondly, trying to stop new development often becomes a major distraction for the small retailers when they should be spending time thinking about their own business and improving their downtown or neighborhood shopping areas.

f) Health care costs: The most important domestic problem in the India is the health care insurance crisis. While this affects everyone, it hits the small business especially hard due to the runaway costs of providing benefits to employees. It creates a real competitive disadvantage. The availability of health insurance is often a determining factor in choice of employment. Until government fixes this problem, small independents need to explore every available alternative, from exploring the availability of state or trade association health plans to implementing new solutions like the recently available high deductible health savings accounts. If small retailers want to attract and retain the kind of employees who will give them competitive advantage, health care benefits must be considered.

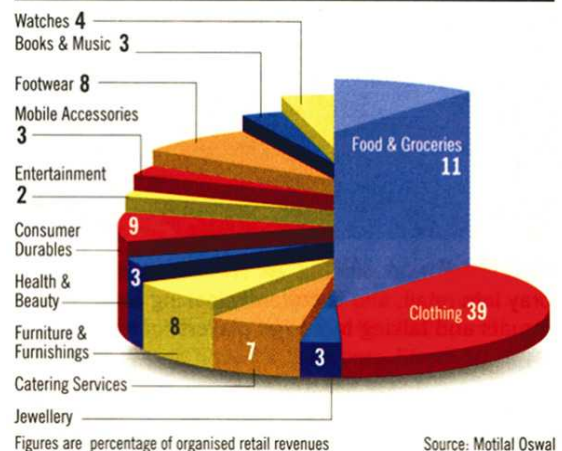
g) Changing consumer attitudes and behavior: The traditional customer definitions and delineations have been blurred by the sheer volume of marketing activity across the entire socioeconomic spectrum. People are more fluid in their shopping behavior. They no longer sit still comfortably in a single segment. They move in and out and around and through value retailers, middle market stores and luxury goods purveyors on a weekly basis. Everybody is everybody's customer now. One size no longer fits all—not even for a single customer. Trying to pigeonhole consumers by their economic status is a major mistake. Today, the same customers will buy a luxury good in the morning and then buy a lowest discount price item in the afternoon. It

is up to the retailer to know their customers well enough to make the connection and to make an offer that will entice them to buy. We value most what is most scarce.

h) Urban sprawl and real estate development : A recent trend in new retail development is to create community spaces of mixed use that exhibit a strong sense of place. Many of these developments, called “the new urbanism,” incorporate features more in keeping with feelings of towns and neighborhoods vs. traditional large retail centers. They are designed to promote social interaction and leisure time activities. This mixed-use, smaller scale, more friendly environments hearken back to the tradition of Main Street, providing a social hub where people, live, shop, work and play. These new lifestyle centers include more upscale specialty stores than traditional malls. According to America’s Research Group. The major consensus challenge areas identified were: i) The changing nature and effectiveness of marketing and advertising; ii) Difficulties in product sourcing and merchandise acquisition; iii) Speed and overwhelming nature of technological change; iv) Need for delivery of higher levels of service; v) Transparency of price and product information; vi) Limitation of management skills and capabilities

Exhibit 1: The Organised Retail Pie

TOTAL: Rs 9,30,000 crore ORGANISED RETAIL: Rs 28,000 crore



4. CHALLENGES FOR COMPETITIVE EDGE:

Opportunities generate their own challenges and retail industry is no exception to the rule. Oversupply, fierce competition, high rentals, poor infrastructure and shoddy marketing are just some of the problems.

a) Store positioning: In current scenario store positioning is conceded as strategic decisions. As the whole retail sector visions further growth, it is mandatory to position the store in a manner to cater the changing needs of the environment. This has been referred with respect to the case. Today, players like Subhiksha and Big Bazaar are effectively winning the hearts, minds and market-share of target segments through “value proposition” positioning.

b) Human resource problems: According to the Retail Association of India (RAI), the total employee base in the organized retail sector is currently one million, while the personnel requirement at the front end alone is 1.25 million which is expected to go up to 3.25 million by 2008-09. Reliance alone is planning to recruit 0.5 million while industry estimates predict that only 1-1.5 million trained employable people will be available by 2008. So, there exists a huge gap between required and available manpower. Over 1,000,000 additional employees will be required to manage and operate retail stores across India within three years.

c) Real estate issues: The retail boom currently being witnessed in India is having a significant impact on the commercial real-estate sector. In most cities it is difficult to find suitable properties in central and down town locations for large-format stores. This is because private holdings are fragmented and auctioning of government owned big vacant plots is rare. This has led to a shift towards the suburbs of metropolitan cities.

CHALLENGE #1 - The changing nature and effectiveness of marketing and advertising:

Considering the trends that have been identified, the need for marketing and advertising effectiveness has never been greater. However, many small independents find that the traditional means of advertising are no longer cost effective. It is not just the traditional media, but also the traditional message that appears to be increasing ineffective. To be blunt, many traditional marketing efforts don’t work. Is the problem the message or the media? Has the small independent simply been lost in the sheer volume of advertising messages or is it that they are not on the radar screen of their customers? Has the fundamental role and purpose of marketing changed? No, but the various strategies and tactics have evolved and many of these new approaches can provide significant benefits to small independent retailers seeking to differentiate themselves from the competition. What is fundamental marketing strategy? Marketing strategy begins with an exploration of the questions: Who are the customers and what do they value? In the past, some retail businesses could get away with being “all things to all people.” Today, especially for small independents, trying to be all things to all people represents the absence of strategy. The management consultant Peter Drucker said, “The competitive advantages of tomorrow lie in the application of knowledge.” The fundamental marketing knowledge principles—know your customer, know your competition and know your environment—have not changed.

Challenge area: marketing and advertising. New solution thinking:

- Invest in customer knowledge systems to make more efficient and effective marketing decisions. Recognize that some customers are more profitable than others.
- Experiment with more targeted forms of advertising such as email, newsletter and direct mail pieces.
- Explore potential partnerships with others

to reduce cost and create potential new value.

- Choose community activities that enhance your differentiation and communicate your activities.
- Create advertising that goes beyond price/item that will enhance your differentiated value proposition.
- Investigate the strategic use of public relations to help tell the broader and more detailed story of your business.
- Create promotional events that will serve to portray the personality of your business.
- Do something special as often as feasible to recognize your best customers.

CHALLENGE #2-Difficulties in product sourcing and merchandise acquisition

Finding differentiated products in appropriate quantities at competitive prices is an increasing challenge for many small independent retailers. Three factors have made sourcing an increasing problem:

- (1) The shrinking vendor structure;
- (2) Vendor minimum orders for single shipments and minimum annual purchases;
- (3) Quantity pricing, which makes some products impossible for the smaller store to sell at adequate margins?

The challenge of differentiated product is compounded by the speed of global information. Manufacturer and distributor consolidation and the channel crossing of products are causing many problems for small independent retail. The pressure for quarterly volume growth and the competitive need to wring costs out of the manufacturing and distribution process is leading manufacturers to standardize products and then sell through as many channels as possible. This causes potential brand confusion among consumers and sourcing problems for independents that must rely on distinctive, quality products to compete against larger competitors. Many of these

- larger suppliers are moving away from selling to small independents in favour of larger and larger volume orders. The other side of the coin is that small independents can take advantage of sourcing new manufacturers and suppliers who are looking to establish themselves with innovative new products. They look to the small independent channel to accomplish this.

CHALLENGE #3 - Speed and overwhelming nature of technological change

For the small retailer nothing illustrates the emotions between “fear and hope” more than the challenge of dealing with the rapid pace of technology advancements. The fear of cost, complexity, and change may or may not be offset by the hope for the powerful benefits of inventory control and customer information. However, it is the speed of technological change with which many small retailers have the most difficulty. Powerful new retail technology solutions are being created and costing less. They are easier to deploy and more customizable, allowing small retailers to be more in control of their business than ever before.

Challenge area: vendor consolidation and product sourcing. New solution thinking:

- Join a buying group to access larger variety of product and achieve better competitive pricing.
- Establish share groups with other non-competitive small independents to find new product.
- Invest in attending more trade shows.
- Communicate your uniqueness and differentiation through your website so desired potential suppliers could virtually visit your store anywhere, anytime.
- Seek out smaller vendors who need distribution for new innovative product.
- Work to establish an “anchor” brand that will signal added credibility with other desired vendors.

The marketing piece is the big opportunity. We are still underdeveloped in mining that data.” The real future power of intelligent POS systems can be found more in the customer tracking benefits than in the product/inventory tracking uses. Internet technology offers many benefits to small independents, not the least of which is the ability to sell worldwide. While e-commerce now accounts for a very small percentage of overall retail sales, it is true that more and more people are becoming comfortable shopping online and e-commerce will continue to grow in both the business-to-business and the business-to-consumer segments. Internet technology is a true leveler of the playing field in terms of providing access to information and fulfilling the promise of multi-channel connection to customers. Use of the Internet can help small independents find new customers, find new ideas, communicate more efficiently, support relationships, brand and market, sell and buy.

CHALLENGE #4- The need for delivery of higher levels of service

The experience of receiving great customer service is now a common expectation of all customers in all retail segments. The consistent delivery of such service is still elusive, even among many of the best retailers. Great service is not simply smile training and free gift wrapping. Rather, it is providing the customer with a subtle mix of product knowledge and personalized care. Only at this higher level can it be a differentiator for small independents. While providing good customer service is a historical differentiator for small independents and still a primary way to compete against larger competitors, the promised land of achieving the kind of service levels that delight customer’s day in and day out is often a mirage. There is a very serious gap between the promises of great service and the reality of what customers experience every day.

Even good service is rare. One of the great myths of small independent retail is that service is their competitive advantage.

Challenge area: speed and overwhelming nature of technology. New solution thinking:

- Use your website to communicate information consumers would find helpful: location, hours, promotions, etc. Use it to portray your image, value proposition and differentiation. And use it to encourage communication through email and other interactive features.
- Explore joining retail associations that are establishing new localized shopping destinations on the Internet.
- Invest in new more powerful and less costly information systems to not just cut costs and track inventory but to capture customer data that will help you make faster and better decisions.
- Explore the wealth of information available on the Internet to learn about and stay up to date with new technology solutions.
- Capture customer email addresses to establish an additional inexpensive communications and marketing channel.

Challenge area: service delivery. New solution thinking:

- Institute formal training programs involving service innovations and enhanced product knowledge.
- Communicate more often and more effectively with employees. Ask them for solutions to raise your customer service bar.
- Explore new avenues to find good people. Expand the search pool by talking with high school counselors and looking more closely at the growing number of retirees who represent a growing, mature labor pool and want extra work.
- Interview potential hires more closely. Determine if they have a passion for

- retail service. Check references carefully.
- Consider employee ownership through the establishment of ESOP plans, providing a financial stake in the success of the business.
 - Consider new ways to conduct team building exercises and new ways to provide motivation programs.

CHALLENGE #5- Transparency of price and product information

Consumers have more knowledge and power than ever before in history due to the ease of getting information instantly from the Internet. They now can obtain complete knowledge about virtually all products and prices and they can compare and contrast choices. This reality creates added competitive pressures for small independents. And they must adjust to this fact of life. One of the fundamental drivers of the control shift from seller to buyer is the empowerment of consumers made possible by the Internet. Increasingly consumers are researching, learning about, comparing and contrasting all kinds of products and prices. This is particularly true for high-ticket, considered purchase items as well as products with features and benefits that are complex. Perhaps the best example of this is new trend is car buying.

CHALLENGE #6- Limitation of management skills and capabilities

The increasing complexity of business and the speed of change place an increasing premium on financial knowledge, strategic planning and leadership. This is a critical area of focus for small independents because there is no longer the kind of margin for error that might have existed in the past. Management is about making decisions. If change is indeed coming at us faster, then it stands to reason that management skills and capabilities need to be developed to cope with the need for faster decision-making. Chief among these capabilities is financial control. It was generally agreed that the single most important

management capability that distinguishes potential winners from losers is the ability to see and control the full financial picture. Measuring performance is the first step toward improvement.

Challenge area: transparency of price and product information. New solution thinking:

- Recognize that this new reality requires higher levels of sales service and staff knowledge.
- Communicate your high quality value propositions so customers understand that your value is derived by much more than price.
- Consider providing lots of self-service product information either on your website or in-store with links to manufacturers' information, making it easier for your potential customers to know more.
- Carefully track the changing distribution patterns of the products you sell; as brands move into Internet distribution and other mass channels your value proposition may have to change.
- Assume your customers are knowledgeable.
- Listen to those on the selling floor and get feedback from those who have direct contact with the customer. Find out what customers are saying about what they buy and don't buy and why they buy or don't buy.

Many small independent retailers started their business because they enjoy the product, the merchandising, and the marketing sides of the business. Relying on accountants to "manage" the financial sides of the business is a bad choice. Most accountants are trained in tax and audit issues with little experience in retail financial analysis. Knowing what the numbers mean is crucially important. For example, GMROI (Gross Margin Return on Investment) may not be important to many small storeowners, but this is one of the survival indicators on the

retail battlefield. That understanding is not something that can be pushed off onto the accountants. Inventory control was identified as a specific area for increased attention. Stepping back from the day-to-day operations to look at the business strategically is a common problem for small independents. In times of dramatic change, a strategic orientation is more important than ever.

It is also important to note how many of the profiled retailers spoke about the need to be less insular—to go outside of comfort zones and seek help and advice from others, particularly the various local, state and national associations and buying groups. Succession planning is an important topic for many owners. The vast majority of India businesses are family-owned, yet statistics show that only a small percentage of family-run companies succeed into the second generation. An even smaller number survive into the third. The reason, according to many experts, is the lack of an orderly succession plan. Today, effective succession planning typically not only targets key leadership positions, but also includes other important positions in a variety of job categories. Effective succession planning establishes a process that recruits employees, develops their skills and abilities, and prepares them for the future. Benefits to this planning include increased retention, better employee satisfaction and stronger organizational commitment.

Challenge area: management skills and capabilities

5. NEW SOLUTION THINKING

- Don't just rely on your accountants for timely financial analysis. Take ownership of the numbers.
- Succession planning isn't just about your eventual demise. The process can be a powerful catalyst to making your business better today.
- Recognize your weak areas and seek help from knowledgeable consultants, local

- and state associations and industry colleagues.
- Develop a formal strategic planning process in order to step back from the daily pressures to think about the longer-range issues that will affect your future. Involve your employees, managers and business partners.
- Successful leadership requires consistent effective communication. Most of us don't communicate enough. Use effective communication as a strategic tool.

6. CONCLUSION

Retailing has become one of the most active and attractive sectors over the last decade. Organized retail is witnessing dynamism and activism and has finally begun to move towards modernization, systematization and consolidation. More exciting times await shoppers across all income and age groups as the future will witness more retail success stories like Wal-Mart and Starbucks being replicated in India. Retail marketing efforts have to improve in the country by way of advertising, promotions and campaigns to attract customers, building loyalty by identifying regular shoppers and offering benefits to them, efficient management of high-value customers and monitoring customer changing needs constantly. Modern retailing not only benefits the consumer but also generates huge benefits to other industries, government and the entire economy. On an average, 30 per cent of the manpower employed in retail will be potential income tax payers. The future as verified by various recognized research firms appears promising, the market is growing, and there are favorable government policies and emerging technologies to facilitate operations. Retailers, who understand their customers and know how to attract and retain them, will be able to leverage these opportunities and emerge winners.

EXHIBIT 3: CASE STORE POSITIONING

In the past, some of the big names like Nanz that hit the scenes, died a natural death either because it entered the market much ahead of its time or maybe, it was incorrectly targeted at the upper-end of the market and not meant for the critical masses.

When it was first opened in September 1999, Crossroads, the modernistic glass-and-granite shopping mall in Mumbai's Haji Ali, overnight turned into a "Tourist destination". Spread over 1,50,000 sq.ft. area with 1,10,000 sq. ft. of retail space and 43 products packed outlets, footfalls on weekends were often close to 1,00,000 and weekdays managed to pull in 30-40,000. But the Piramal Holdings property soon discovered that despite the thronging crowds, footfalls conversion rates were a meager 15 per cent. An unpopular entry fee, the opening of another large-format mall, Phoenix High Street nearby and consumer disenchantment resulted in revenues stagnation at Rs.120 crore. Even worrying was that footfalls continued to reduce. It was then that Crossroads, CEO K.N. Iyer, decided to go in for an overhaul and a "repositioning." It decided to project itself as an upscale premium mall targeting customers with household incomes of Rs.3 lakh plus. Interested customers were filtered out through loyalty programmes, direct mailers and roping in upscale brands like Mango, Morgan De Toi, Wills Lifestyle. Even the unpopular entry fee was made redeemable. As a result weekend footfalls stabilized at around 60,000, revenues remained constant, but conversion rates went up to 30 per cent.

Table I: Value of the Indian Retailing Market

Growth	Market Value	Source
In 2001	Rs.14,400	KSA
20% cover 2001	Rs.18,000	KSA
20% till 2005	Rs.8,00,000	AT Kearney
6-7% till 2010	Rs.1,41,000	GII

Source: Changing gears of Retailing in India, The Economic Times, 2003.

Table II: Organised Retail in 2010

	2004	2010
Total Size of Retail Industry	9,30,000	14,00,000
Share of Organised Sector	3%	10-12%
Size of Organised Retail	28,000	1,40,000-1,50,000

Source: KSA Technopak (Figure in Rs. Crore)

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