

# ORGANIZED RETAILING IN INDIA : CHALLENGES AND OPPORTUNITIES

USHA  
M.Com, UGC-Net  
Dist. Jind (Haryana)

## ABSTRACT

*The journey of the retail sector in India has started long time ago through the Kirana stores. Indian retailing sector considered as one of the largest private sector in the economy, it is second to agriculture in terms of the market and employment. Indian retail industry accounting approximately 14 to 15 % of GDP and provides 8 % employment more than 40 million people. With 1.2 billion people, India is one of the fastest growing retail markets in the world and prime mover of an Indian economy. India is fifth largest retail destination. It offers huge potential for growth in coming years. India is becoming most favoured retail destination in the world. This paper intends the emergence of organized retailing in India. In the era of globalization economy changes rapidly in which retail sector also transforming from traditional to organized retailing. Due to changing in the scenario of world's economy retail sector attracts the attention of scholars make some efforts relating to study of opportunities and challenges. Since efforts have been made in this paper to highlights the present status, challenges and opportunities of retail sector in India.*

**Key words:** Retailing, Consumer, Opportunities, Challenges.

## INTRODUCTION

The reasons for the emergence of Retail in India are increasing double income families, disposable income, and impact of developed nations. With the help of modern management techniques it will become the specialist Retailers in future. They know that the relationship between the retailer & customer is very close than other chains of distribution. India is a nation of shopkeepers. We can see more than 16 million retail outlets in India, and India has highest density of retail outlets in the world. Retail Industry in India is at present estimated to be more than US \$ 3,893,425 Cr (US \$ 648.90 billion). On that part of organized retailing is estimated CAGR (Compound Annual Growth Rate) 13% i.e. \$ 950 billion. In future by the year 2018 the vision of Industry is to attain the goal which is estimated US \$ 23 billion in organized retail.

Retailing is not the only concept of economic structure but very much a part of our lives. Although trading of goods have been in existence since the olden days, it is the only in the past recent times that buying and selling of goods have become more of a formal and a brand dominated activity. In fact today the retailing has evolving into a global high-tech business. In 2004, The High Court of Delhi defined the term "retail" as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). Retailing refers as any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution. Retailing is carried out by

retailers who try to satisfy consumer's needs by providing link between them and the wholesalers. They help the manufacturers to sell their merchandise is available at the right market available at right price and at the right place to satisfy the needs of the consumers. Indian retailing sector considered as one of the largest private sector in the economy, it is second to agriculture in terms of the market and employment. Indian retail industry accounting approximately 14 to 15 % of GDP and provides 8 % employment more than 40 million people. With 1.2 billion people, India is one of the fastest growing retail markets in the world and prime mover of an Indian economy.

McKinsey & Co., have also suggested that the organized retail market in India is expected to grow to 14-18% by 2015 of the total retail market in India from 8% in 2008. Its value is estimated to be around US\$450 billion by 2015. In the latest global retail development index (GRDI), AT Kearney of US-based global management consulting firm has placed India as the most attractive nation for retail investment among 30 emerging markets. His report further revealed that revealed that luxury brands market in India grew at a healthy 20 per cent during 2010 reaching a size of US\$ 5.8 billion. It further stated that the Indian luxury market stood at a value of US\$ 4.76 billion in 2009 and is anticipated to be worth US\$ 14.7 billion by 2015. His further estimates suggest that India's organized retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% to 30 % per year. In 2011 Food accounted for 70% of Indian retail, but was under-represented by organized retail.

Modern retail sector is at the crossroads where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth trajectory. It is undergoing a major transformation as entry of global players and watchful expansion by major Indian retailers has opened new vistas of joint ventures, tie-ups and franchise offering new formats, services, private labels, locations and recently to diverge from metros to smaller towns, Arvind Singhal Chairman Technopak Advisors has rightly said that, "A lot of international retailers and brands are most likely to look at India, as global markets have stabilized and the Indian economy has proved to be better than most other countries.

## **ORGANISED RETAILING IN INDIA**

Organized retailing has emerged in a big way since 2000 onwards and with it we are witnessing the emergence of new forms of retailing. The retail market can be segmented on the basis of retail formats to concentrate or focus on the needs of particular consumer group. Organized retailing refers to trading activities undertaken by licensed retailers, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. In other words, it is a network of similarly branded stores with an element of self-service. Organized retail in India today holds only a fraction of the market share potential in India. Organized retail trade in India was worth more than Rs 11,000 billion in 2001. It has risen from 0 to 6 percent in a very short amount of time, the organized sector growing tremendously and it was expected to grow CAGR 40 percent in 2013. Associated Chambers of Commerce and Industry (ASSOCHAM) has reported that, the organized retail is growing phenomenally and it will revolutionize the retail sector in next 3 to 4 years. As per the estimation of ASSOCHAM, the growth value of total retail market will be 30 percent and the organized retail expected grow analyzed 50 percent value growth in coming years.

The phenomenal growth of retail in India is reflected in the rapid increase in number of super markets, departmental stores and hyper markets in the country. However, this unpredicted growth trend has been challenged by the shadow of the current economic slowdown, which has raised a fair of dip in consumption and slow down of growth for Indian Organized retailers.

### OBJECTIVE OF THE STUDY

- To study the growth and development of organized retail sector in India.
- To study the challenges faced by organized retail sector.
- To find out the opportunities for organized retail sector in India.

### RETAILING IN INDIA

The face of Indian retailing has witnessed a rapid transformation over the last decade. It was rated the second most attractive emerging retail market after c and ranked second in a Global Retail Development Index of 30 developing countries drawn up by AT Kearney. This is evident from the fact that shopping mall activity which was earlier only a part of the big cities has started percolating down to smaller cities and towns. According to CAGR in 2020 Indian retailing industry will grow more than 7.45 percent due to the new retailer coming to the Indian market and lots of employment opportunity in the market. The size of Indian retail market is expected to double in 2020 worth US\$ 1 trillion from US\$ 600 billion in 2015 as well as E-commerce market, B2B market is expected to reach US\$700 billion in 2020, whereas the business to consumer (B2C) market is expected to grow US\$ 102 billion in 2020 and online retailer is going to expand their business with physical store in next 5 years.

**Table: 1.1 Global Retail Development Index 2016**

2016 Rank	Country	Market Attractiveness (25%)	Time Pressure (25%)	GRDI Score
1	China	100	92.5	72.5
2	India	53.7	100	71
3	Malaysia	81.2	50.4	59.6
4	Kazakistan	56.4	70.2	56.5
5	Indonesia	64.3	68.9	55.6
6	Turkey	85.9	53.1	54.3
7	UAE	95.2	18	53.6

GRDI Indian retail market compete and get 2nd place with score of 71 percent in comparison in 2012 it was only 60.8. The growth of GDP increase the speed of doing business and reforms In FDI policy puts India on 2nd place. Retailing in India is receiving global recognition and attention and this emerging market is witnessing a significant change in its growth and investment pattern. Some of the highlights of the Indian Retail sector are: The Indian retail industry accounts for 10% of GDP and 8% of employment. The total retail (Organized and unorganized) industry in India is estimated to be Rs 20 lakh crore in 2010. This is expected to reach Rs 27 lakh crore by 2015. Organized retail, which is estimated to be Rs 1.0 lakh crore (5% share) in 2010, is projected to reach Rs 3.0 lakh crore (11% share) by 2015. This means a tripling of the current size and scale of Organized retail in the next five years, i.e. 2010-2015. Organized retail will grow at a fast pace.

## GROWTH OF ORGANISED RETAILING IN INDIA

India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, Retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience. In 2012, Boston Consulting Group (BCG) estimated that the retail sales were US\$ 471 billion with 7 percent share for the Organized retail US \$ 34 billion in 2011. It also shows that by 2020 the size of the Organized retail to be around \$ 260 billion with a penetration of 21 percent. Increasing middle class incomes and use of automobiles, refrigerators, credit cards and adoption of technology for supply chain is expected to shift the balance in favor of organized retail in metros and small towns. Over the past decade, the retail market emerges with the tremendous growth and profound change. In comparison with the last decade the growth in the retail market is more than 21 percent and the per capita increase three times better from \$ 525 to \$1090 as well as global retail jumped from 32% in 2000 to 51% in 2015. See figure the emerging market out spaced the developed market e and the retail sales grew 11.4 CAGR compared with the developed market with 5-7 % considered that the developed market decreased their 1% of the market. The BMI India report for the first quarter of 2012 released forecasts that total retail sales with growth from US \$ 422.09 billion in 2011 to US \$ 825.46 billion by 2015. The report highlights strongly underlying economic growth, population expansion, increasing disposable income and rapid emergence of organized retail infrastructure as major factors behind the forecast growth. The enormous growth of retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace. According to report titled "Indian Organized retail market 2010", published by Knight Frank, during 2010-12, around 55 million square feet of retail space will be ready in Mumbai, NCR, Bangalore, Kolkata, Chennai, Hyderabad and Pune. Besides between 2010 and 2012 the organized retail real estate will be grown from existing 41 million square feet to 95 million square feet. The total no. of shopping malls is expected to expand at CAGR of 18.9% by 2015.

## CHALLENGES TO ORGANISED RETAIL SECTOR IN INDIA

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:

- **Infrastructure and logistics:** The lack of proper infrastructure and distribution channels in the country results in low progress. This is one of the major hurdles for organized retailers. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient.
- **Frauds in retail:** currently the primary challenges for the retailers is to prevent the companies from frauds which includes vendor frauds ,thefts, shoplifting, lack of supervision and administration, these are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs .As the size of the sector would increase; this would increase the number of thefts, frauds and discrepancies in the system.



- **Lack of Skilled Manpower:** Front-Desk or retail assistant profiles in stores form a major proportion of the employment in the retail sector while store operations accounts for 60-80% of the total manpower employed in the organized retail sector. But, there are very few qualified people in this industry so many graduates and post graduates are hired from other streams also.
- **Channel Conflicts:** Globally, retailers maintain a direct relationship with their suppliers. Due to the complex taxation structure and geographical spread of the country, most FMCG companies have developed regional distribution and re-distribution network. Cutting out the distribution network will hurt the operating structure of distributors.
- **Real Estate Price:** the price of real estate in some cities in India is among highest on the world. Taking the space on lease or rent is higher expenditure. All lease can reduce the profit margin and it is difficult to find the suitable properties in central location of retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.
- **Political risk:** The largest opposition party in India has opposed FDI in retail and some of its leaders have indicated that they will scrap the policy if their party comes to power. A political change in state and central governments puts a lot of political risk on investment in retail.
- **The Domination of Unorganized Retail Sector:** The very first challenge facing the organized retail industry in India is competition from the unorganized sector. Traditionally retailing has established in India for centuries. They dominated over 97% of retail market in India and 400,000 crore Rs retail worth.
- **Tax structure complexity:** The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores.
- **Inefficient supply chain management:** Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management and distribution channel. Organized retail in India must concentrate on improving the supply chain management, which in turn would bring down inventory cost. This can be passed on to the consumer in the form of low pricing.

## OPPORTUNITIES FOR ORGANISED RETAIL SECTOR IN INDIA

Retail marketing gets various opportunities to grow up in the Indian market. Not only retailing but Manufacturers as well as suppliers, and buyers have various opportunities, some of which are organized retail provides brands much needed visibility and platform for customer interaction. It also helps in launching of new product or product variant and in market penetration. It has wider product range and more frequent, speedier deliveries. Increased urbanization has shifted consumers to one place and thus a single retail can catch more customers. As the time passed away joint families came in a new form i.e. nuclear family. Again the income level of these nuclear families increases because both members started earning. This results into increased power of purchase and lack of time.

Now they want everything under one roof. This brought the concept of organized retailing. Increased use of credit cards is in favor of retail marketing. It creates requirement even when it is not necessary. Organized retail stores put stress on proper Infrastructure like well maintained building, air conditioning, trained employees, electronic machine, parking facilities and proper

display of goods category wise. Here customers feel comfort, joy and entertainment. Purchasing becomes joy for him. Self-selection saves time and gives more opportunities and satisfaction. Fix cost removes the threat of misleading. They avail various discounts and promotional schemes presented by the manufacturers. They also get product of different varieties and of proper quality.

- **Create transparency in the system:** the intermediaries operating as per mandi norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realizes only one-third of the Price, which the final consumer pays.
- **Improvement in Supply Chain:** Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).
- **Improvement in Customer Satisfaction:** Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a relationship in the quality of the products sold to foreign retailers and the same products -stoppage of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.
- **Visual Communication:** Retailer has to give more emphasis on display visual merchandising, lighting, signage and specialized props. The visual communication strategy might be planned and also be brand positioned. Theme or lifestyle displays using stylized mannequins and props, which are based on a season or an event, are used to promote collections and have to change to keep touch with the trend. The merchandise presentation ought to be very creative and displays are often on non-standard fixtures and forms to generate interest and add on attitude to the merchandise.
- **Changing the Perception:** Retailers benefit only if consumers perceive their store brands to have consistent and comparable quality and availability in relation to branded products. Retailer has to provide more assortments for private level brands to compete with supplier's brand. New product development, aggressive retail mix as well as everyday low pricing strategy can be the strategy to get edge over supplier's brand.
- **Proper Tax Structure:** The current multipoint taxation should be rationalized. The government should introduce a uniform taxation system across the country to relax the law that hinders interstate flows of goods.
- **Incentives for Investments:** Tax holiday norms for cold storage chains, infrastructure and investment in supply chain should be enacted.

## CONCLUSION

The main purpose of the study is to understanding the concept of organized retail sector in India. From past many years, the customer preference, their behavior is rapidly changing because of the standard of living and rising in the quality of life. So many new organized retail giants have entered in the India retail market. Various challenges faced by organized retailers in India and now there are opportunities developing for them which can help them to overcome the threat from traditional market. Many retail formats have been developed but they are slow in progress

as compared to other countries, government of India has to take some necessary action for developing the retail stores in India so they can overcome those challenges and fast growth of organized retailing in India.

Retailing provides a crucial link between producers and consumers in modern market economy. Retail in India is most dynamic industry and represents a huge opportunity both for domestic and international retailers. Modern retailing is not threat to independent Mom and Pop stores as most of the consumers said that they never stopped visiting Kirana stores. They strongly agreed on coexistence of both is requirement of the day.

Their frequency of going to kirana stores is reduced but its kind of opportunities for reorienting Mom and Pop stores for attracting more customers. So, organized retailing is beneficial for India because it's not alarming to create conflict with unorganized stores but reshaping unorganized stores into budding/nascent organized stores. Modern retailing has miles to go in India. The growth of modern formats has been much slower in India as compared to other countries and the development of this sector is restricted by the presence of regulatory and structural constraints.

