

SOS POLITICAL SCIENCE AND
PUBLIC ADMINISTRATION
MBA HRD 406 (B)

SUBJECT NAME: FUNDAMENTALS
OF RETAIL
MANAGEMENT(OPT.PAPER)

UNIT-II

TOPIC NAME-PHASES OF RETAIL
MARKET IN INDIA

Indian Retail Industry

India's Retailing Boom has acquired further momentum, dynamism and vibrancy with international players experimenting in the Indian market and the country's existing giants taking bold innovative steps to woo the consumer. At the same time, the early entrants are redefining their strategies to stay competitive and suit the new market landscape. The next few years are likely to witness rapid growth in the organized retailing sector with several leading international players establishing their presence in India by adjusting their formats to suit local tastes and buying behavior while regional players have stepped up their defenses and are striving to gain edge over global players by using their knowledge of local markets. Clearly the next wave of the retail boom is upon us.

Organized retailing refers to trading activities undertaken by licensed retailers, i.e. 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. Unorganized retailing, on the other hand, refers to the traditional formats of low cost retailing, for example, the local kirana shops, owner manned general stores, convenience stores, hand cart and pavement vendors etc.

Evolution of Indian retail:

Retailing is one of the biggest sectors and it is witnessing revolution in India. The new entrant in retailing in India signifies the beginning of retail revolution. India's retail market is expected to grow tremendously in next few years. According to AT Kearney, The Windows of Opportunity shows that Retailing in India was at opening stage in 1995 and now it is in peaking stage in 2006. The origins of retailing in India can be traced back to the emergence of Kirana stores and mom-and-pop stores. These stores used to cater to the local people. Eventually the government supported the rural retail and many indigenous franchise stores came up with the help of Khadi & Village Industries Commission. The economy began to open up in the 1980s resulting in the change of retailing. The first few companies to come up with retail chains were in textile sector, for example, Bombay Dyeing, S Kumar's, Raymond's, etc. Later Titan launched retail showrooms in the organized retail sector. With the passage of time new entrants moved on from manufacturing to pure retailing.

Retail formats in India:

Hyper marts/supermarkets: large self-servicing outlets offering products from a variety of categories.

Mom-and-pop stores: they are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.

Departmental stores: are general retail merchandisers offering quality products and services. **Convenience stores:** are located in residential areas with slightly higher prices goods due to the convenience offered.

Shopping malls: the biggest form of retail in India, malls offers customers a mix of all types of products and services including entertainment and food under a single roof.

E-trailers: are retailers providing online buying and selling of products and services. **Discount stores:** these are factory outlets that give discount on the MRP.

Vending: it is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machine.

Trends in the Retail industry

Emergence of organized retail: Real estate development in the country, for example, the construction of mega malls and shopping malls, is augmenting the growth of the organized retail business.

Spending capacity of youth of India: India has a large youth population, which is a conducive environment to growth of this sector.

Raising incomes and purchasing power: The per capita income in India has doubled between 2000-01 and 2009-10 resulting in improved purchasing power.

Changing mindset of customers: The customer mind set is gradually shifting from low price to better convenience, high value and a better shopping experience.

Easy customer credit: Emergence of concepts such as quick and easy loans, EMIs, loan through credit cards, has made purchasing possible for Indian consumers, for products such as consumer durables
Higher brand consciousness: There is high brand consciousness among the youth; 60% of India's population is below the age of 30 leading to popularization of brands and products.

Challenges Faced by the Retail Industry:

International Standards: Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.

Inefficient supply chain management: Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down inventory cost, which can then be passed on to the consumer in the form of low pricing.

Lack of Retail space: Most of the retail outlets in India have outlets that are less than 500 square feet in area. This is very small by International Standards.

Cultural Diversity: India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging.

Challenges Faced by the Retail Industry:2

Real estate issues: The enormous growth of the retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace. With over 1,000 hypermarkets and 3,000 supermarkets projected to come up by 2011, India will need additional retail space of 700,000,000 sq ft (65,000,000 m²) as compared to today.

Human resource problems: Trained manpower shortage is a challenge facing the organized retail sector in India. The Indian retailers have difficulty in finding trained person and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels.

Frauds in Retail: It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.

Future Prospects of Organized Retail Sector in India: 1

India has been ranked as the third most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm. AT Kearney's study on Global Retailing Trends Found that India is the least competitive as well as least saturated of all major Global markets. This implies that there are significantly low entry barriers for players trying to setup base in India, in terms of competitive landscape. The report further stated that Global Retailer such as Wal-Mart, Carrefour, Tesco and Casino would take advantage of more favorable FDI rules that are likely to be introduced in India. A good talent pool, unlimited opportunities, huge markets and availability of quality raw material at cheaper cost is expected to make India overtake the world best retail economies by 2042. The sector is expected to see an investment of over \$30billion within next 5 years and putting modern retail in the country to \$175-200 billion, according to Technopark estimates. International retailers see India as the last retailing frontier left as the Chinas retail sector is becoming as saturated. Domestic players are selectively growing in India-postponing aggressive expansion plans, adding stores judiciously and shifting gears to tier 2 and 3 cities. While India is

Future Prospects of Organized Retail Sector in India:2

- Carrefour, the world's second-largest retailer, has opened its first cash-and-carry store in India in New Delhi. Germany-based wholesale company Metro Cash & Carry (MCC) opened its second wholesale centre at Uppal in Hyderabad, taking to its number to six in the country.
- Jewellery retail store chain Tanishq plans to open 15 new retail stores in various parts of the country in the 2011-12 fiscal.
- V Mart Retail Ltd, a medium-sized hypermarket format retail chain, is set to open 40 outlets over the next three years, starting with 13 stores in 2011, in Tier-II and Tier-III cities.
- Reliance Retail, the wholly owned subsidiary of Mukesh Ambani's Reliance Industries, is set to open 150 stores by the end of Dec. 2011 and double the number of stores across the country in all formats within five years.
- Future Value Retail, a Future Group venture, will take its hypermarket chain Big Bazaar to smaller cities of Andhra Pradesh, with an investment of around US\$ 1.54 million to US\$ 4.41 million depending on the size and format.

Future Prospects of Organized Retail Sector in India:3

- RPG-owned Spencer's Retail plans to set up 25 Hyper Markets Through 2012 in the country.
- Spar Hypermarkets, the global food retailing chain of the Dubai-based Landmark Group, expects to start funding its India expansion beyond 2013 out of its local cash flow in the country. So far, the Landmark Group has invested US\$ 51.31 million in setting up five hypermarkets and plans to pump in another US\$ 51.31 million into the next phase of expansion.
- Leading watchmaker Titan Industries Limited plans to invest about US\$ 21.83 million for opening 50 premiums watch outlets Helios in next five years to attain a sales target of US\$ 87.31 million.
- British high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years.
- Spain's Inditex, Europe's largest clothing retailer opened the first store of its flagship Zara brand in India in June 2010.

Suggestions for retail sector in India:

Many agencies have estimated differently about the size of organized retail market in 2011. The one thing that is common amongst these estimates is that Indian organized retail market will be very big in 2011. The status of the retail industry will depend mostly on external factors like Government regulations and policies and real estate prices, besides the activities of retailers and demands of the customers also show impact on retail industry. As the retail market place changes shape and competition increases, the potential for improving retail productivity and cutting costs is likely to decrease. Therefore it is important for retailers to secure a distinctive position in the market place based on values relationships or experience. Finally, it is important to note that these strategies are not strictly independent of each other; value is function of not just price quality and service but can also be enhanced by personalization and offering a memorable experience.