

Economic Significance of Retail Industry in India

* Dr. Shripathi. K.P

Abstract

In the recent years, the retail sector in India is growing impressively and there are several reasons for the boom in this sector. Increased consumerism and increased purchasing power are the key factors for this. Economic development marked with increased production of wide range of products with multiplier effect created a favorable environment for the retail sector. Increased international and inter regional interactions makes people exposed to different cultures and way of life. Even domestically increased consumption and changed consumption pattern owing to diversity in culture, religion and the family values that encourage spending on specific occasions keeps the retail business activated. Indian retail sector is under developed in the sense that more than 94.0 per cent of the market is made up of small, indigenous styled family-run stores. Recently, there is an indication that Government is dropping it's traditionally protectionist's policy and opening up its retail market to greater foreign investment. In view of these changes taking place in the retail sector of India, it would be interesting to analyze their growth trend, opportunities and challenges in this paper. Such an attempt is made in this paper to analyze the evolution and present trend of retail sector in India

Keywords: Retail Sector; FDI; Consumption; Mall; Hyper Market

Introduction

In a highly populated country like India, market economy creates immense scope for the retail sector. However, in India, discussions on retail sector gained momentum recently after the Government's decision on liberalizing foreign investment in this sector. Otherwise, importance of the retail sector was less recognized as it remained informal and unorganized. Economic development in terms of GDP growth, employment, increased per capita income brought

* Professor, Mangalore University, Mangalagangothri, Mangalore

revolution in the consumerism and created scope for the retail industry. Further, international economic integration and technological revolutions supported promotion of retail sector.

In the recent years, the retail sector in India is growing impressively and there are several reasons for the boom in this sector. Increased consumerism and increased purchasing power are the key factors for this. Economic development marked with increased production of wide range of products with multiplier effect created a favorable environment for the retail sector. Increased international and inter regional interactions make the people exposed to different cultures and way of life. Even domestically increased consumption and ranged consumption pattern owing to diversity in culture, religion and the family values that encourage spending on specific occasions keeps the retail business activated.

True that the Indian retail sector is under developed in the sense that more than 94.0 per cent of the market is made up of small, indigenous styled family-run stores. Recently, there is a sign that the Government is dropping its traditionally protectionist's policy and opening up its retail market to greater foreign investment.

However, it is felt that in a competitive environment it is essential to protect the livelihoods of the small shopkeepers but on the other hand, the policy makers realize that foreign investment is badly needed to provide the infrastructure - the warehousing, distribution and processing operations - that are needed to upgrade India's retail industry. Development of such infrastructures is very essential at this stage of development. This would help to preserve products, and better utilization of the produced goods in the economy. It is estimated that about 50.0 per cent of the country's fruit and vegetables rot by the roadside before they reach market and the case is not different with regard to other products also.

Within retail, the emerging sectors would be food and grocery, apparel, electronics, e-commerce, fashion and lifestyle."The upcoming areas within retail are luxury, super specialty stores/ malls, and renewed emphasis on high streets. Unfortunately, malls have become expensive affairs for most of the retailers. Therefore, a huge

investment and emphasis has been laid down on e-tailing or online stores that has wider reach and are economically viable," (Darlie Koshy)

In view of these changes taking place in the retail sector of India, it would be interesting to analyse their growth trend, opportunities and challenges in the Indian context and this would help to probe into the requirements to keep this sector up to the world standard.

With this background, in this paper an attempt is made to analyse the evolution and present trend of retail sector in India. The specific objectives of this paper are;

1. To evaluate the evolution of the retail industry of India
2. To analyse the economic significance and present status of the Indian retail industry, and
3. To probe into the future prospectus of the retail sector in India

Methodology

The paper will be descriptive in nature analysing evolution of retail sector in India and its recent trend. Economic dimensions such as consumerism, employment opportunities, and economic significance of the retail sector are analysed. Historical analysis of retail industry is attempted with secondary data. Appropriate literatures were reviewed to substantiate the discussions. Main features of Indian retail industry are identified and new opportunities and challenges were probed.

Evolution of retail industry in India

Retail sector in India was existed in an indigenous style and was not so active in the grassroots level owing to the low level of consumption. Traditionally, retailing in India can be traced to the emergence of the neighborhood Kirana stores catering to the convenience of the consumers. Later, era of Government support for rural retail was seen in the form of indigenous franchise model of store chains run by Khadi and Village Industries Commission. early 1980s experienced slow change in the Indian retail sector as India began to open up the economy. Textiles sector with companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim first saw the

emergence of retail chains. Later, Titan successfully created an organized retailing concept and established a series of showrooms for its premium watches.

After the new economic policy in 1991, a fresh wave of entrants with a shift from Manufactures to Pure Retailers was noticed. For example. Food World, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword and Fountainhead in books. Since 1995, we can see the emergence of shopping centers mainly in urban areas, with facilities like car parking. They aimed to provide a complete destination experience for all segments of society. In the recent years, emergence of hyper and super markets, trying to provide customer with variety of facilities is a land mark in the evolution of retail sector. At year end of 2000, the size of the Indian organized retail industry was estimated at Rs. 13,000 crore.

Recent trends

The retail sector in India has shown a phenomenal growth in the last decade. According to the Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail. The recent announcement by the Indian Government with Foreign Direct Investment (FDI) in retail, especially allowing 100.0 per cent FDI in single and multi-brands, has created positive sentiments in the retail sector.

The India Retail Industry is the largest among all the industries, accounting for over 10.0 percent of the country's GDP and around 8.0 per cent of the employment. The Retail Industry in India has shown as one of the most dynamic and fast paced industries with several players entering the market.

The size of India's retail sector is currently estimated at around \$450 billion and organised retail accounts for around 5.0 percent of the total market share. Ratings agency, Fitch had assigned a stable outlook to the retail sector for 2012 as factors like expected sales, growth-driven expansion and efficient working capital management are likely to benefit retail companies. It is estimated that the retail sector would continue to grow at 10-12 percent per annum, which is extremely encouraging when the country's economy is only projected to grow at 6.0 percent.

It is estimated that Indian consumer market is likely to grow four times by 2025. It is also noticed that India's retail market has moved up to the 39th most preferred retail destination in the world in 2009, from 44th position in the previous years. This indicates that India continues to be one among the most attractive countries for global retailers. Foreign Direct Investment (FDI) inflows as on September 2009, in single-brand retail trading, stood at approximately US\$ 47.43 million, according to the Department of Industrial Policy and Promotion.

India's overall retail sector was expected to rise to US\$ 833 billion by 2013 and to US\$ 1.3 trillion by 2018, at a compound annual growth rate (CAGR) of 10.0 per cent. Consumer spending rose by an impressive 75.0 per cent in the past four years alone.

In the overall retail sector, food and grocery is the dominant category with 59.5 percent share, valued at Rs 792,000 crore, followed by clothing and accessories with 9.9 per cent share at Rs 131,300 crore. Interestingly, 'Out-of-Home food' (catering) services (Rs 71,300 crore) has overtaken jewellery (Rs 69,400 crore) to become the third largest retail category, with a 5.4 per cent market share – this largely reflects the massive employment opportunities to youngsters in the services sector and accompanying changes in consumer lifestyles.

Consumer durables (Rs 57,500 crore) is the fifth largest retail category followed by health and pharmaceuticals (Rs 48,800 crore), entertainment (Rs 45,600 crore), furniture, furnishings and kitchenware (Rs 45,500 crore), mobiles and accessories (Rs 27,200 crore), leisure retail (Rs 16,400 crore), footwear (Rs 16,000 crore), health and beauty care services (Rs 4,600 crore) and time wear and eyewear (Rs 4,400 crore).

But in the organised retail segment, the picture is different altogether. Apparel and fashion accessories is the largest category with 38.1 per cent of the market share, valued at Rs 29,800 crore, followed by food and grocery accounting for 11.5 per cent of the organised retail market at Rs 9,000 crore, footwear with 9.9 percent of the organised retail market share at Rs 7,750 crore, consumer durables with 9.1 per cent market share at the fourth place (Rs 7,100 crore), and 'Out-of-Home food' (catering) services and furniture, furnishings and Kitchenware retail.

The main features of Indian retail sector are;

- ❖ The retail sector in India is estimated to have annual sales of \$450 billion, with nearly 90.0 per cent of the market controlled by tiny family-run shops.
- ❖ India is rated the fifth most attractive emerging retail market.
- ❖ It is estimated that the annual growth of department stores is more than 24.0 per cent.
- ❖ Food and apparel retailing key drivers of growth of this industry.
- ❖ Organised retail or large chains, makes up about 10.0 per cent of the market, but is expanding at 20.0 per cent a year. This is driven by the emergence of shopping centers and malls and a middle class of close to 300 million people that is growing at nearly 2.0 per cent a year.
- ❖ Organized retailing in India has been largely an urban.
- ❖ More successful in cities in the South and Western regions.
- ❖ Rural markets emerging as a huge opportunity for retailers.
- ❖ India also allows 100 per cent FDI in cash-and-carry, or wholesale, ventures. Restrictions on foreign investment in front-end retail exist because of opposition from millions of small shopkeepers.
- ❖ India has recently allowed 100 per cent FDI in single-brand retail subject to certain sourcing restrictions but no ownership in multi-brand retail.

Transformation in the format of retail sector

As the contemporary retail sector in India is reflected in most popular shopping centers, multiplex- malls and huge complexes offering shopping, entertainment and food all under one roof, the concept of shopping has been transformed in terms of format and consumer buying behavior.

The major formats of retails sectors are Malls, Specialty Stores, Discount Stores, Department Stores Hyper marts/Supermarkets, Convenience Stores and MBOs

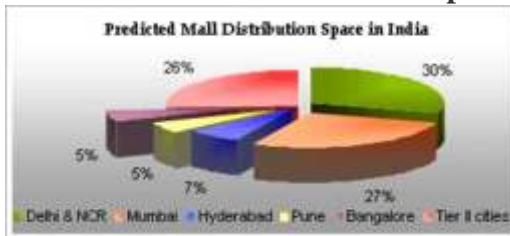
Malls

The largest form of organized retailing today, located mainly in metro cities, in proximity to urban outskirts with floor space ranging from 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, and Pantaloon. In malls everything is available under the same roof and the mall has a comfortable ambience. With the growth in the sector, retailers are looking at flexible space options through which various formats can be accommodated and malls are well placed to cater to new retail formats.

From employment perspective, shopping malls have a significant impact and could directly and indirectly employ up to 2,000 people depending on its size, from diverse backgrounds. Job opportunities range from security to housekeeping to operations to audits to senior management roles.

The retailing configuration in India is fast developing as shopping malls are increasingly becoming familiar in large cities. When it comes to development of retail space specially the malls, the Tier II cities are no longer behind in the race. The Governments of states like Delhi and National Capital Region (NCR) are very upbeat about permitting the use of land for commercial development thus increasing the availability of land for retail space; and making NCR render to 50.0 per cent of the malls in India.

Chart No 1: Predicted Mall Distribution space in India



Specialty Stores

Chains such as the Bangalore based Kids Kemp, the Mumbai books Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

Discount Stores

As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk, reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non-perishable goods.

Department Stores

Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. Further, Department stores may be localized departments also such as clothing, toys, home appliances, groceries, etc.

Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India and even has its own in store brand for clothes called Stop.

Hyper marts/Supermarkets

Large self-service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores, today contribute 30.0 per cent of all food and grocery organized retail sales. Super Markets can further be classified in to mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from of 3,500 sq ft to 5,000 sq ft. having a strong focus on food, grocery and personal sales.

Convenience Stores

These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium

MBO

Multi Brand outlets, offer several brands across a single product category. These usually do well in busy market places and Metros.

Prominent Indian Retail Companies

Pantaloon Retail, India's largest listed retailer and part of the Future Group run apparel and electronics stores under its lifestyle brands Central, E-Zone, Hometown. Future group also operates the Big Bazaar hypermarket chain and supermarket brand Food Bazaar. The group has over 1,300 stores across formats, and occupies a total retail space of 16.5 million square feet in India.

Second-ranked *Reliance Retail* a part of Reliance Industry, is India's largest listed group. Reliance Retail operates 1,300 stores across neighborhood stores, supermarkets, hypermarkets and lifestyle stores.

Shoppers Stop, part of the K Raheja Group which operates in real estate, has about 265 stores across brands and formats including 12 Hypercity hypermarkets. It operates 4.58 million square feet of retail space and its loss-making Hypercity is open to partnerships with foreign groups.

Trent, part of the sprawling Tata Group, operates 106 stores across formats and runs the Westside range of apparel stores, and hypermarkets under Star Bazaar. It signed a franchisee agreement with Tesco Plc under which Star Bazaar shops use the British firm's supply chains and infrastructure.

Aditya Birla Retail is the unlisted retail arm of India's telecoms-to-cement conglomerate Aditya Birla Group. The company operates around 500 supermarket and hypermarket stores under the brand 'More'. It has said that it would evaluate partnerships with global firms.

Major foreign companies

Wal-Mart Stores Inc has a cash-and-carry operation with Indian partner Bharti Enterprises, the parent of leading mobile provider Bharti Airtel,

Tesco, Britain's largest retailer has a tie-up with Trent's Star Bazaar hypermarket chain. Tesco is also planning to enter the wholesale market through the tie-up.

Germany's Metro AG operates 11 wholesale stores in India.

Carrefour has two (the world's No. 2 retailer) cash-and-carry stores in India.

Conclusion

Although Indian retail sector is considered to be the biggest, only about 5-6 percent of the Indian retail market is organized, which is meager as compared to western economies where organized retail is over 80.0 percent. Analysts forecast that this sector is likely to grow at 25.0 percent per year till 2020, which indicates the large opportunity in this sector. There has also been a huge shift in the shopping patterns of people creating scope for retail industries.

However, there are several challenges on the growth path of the retail sector

The biggest problem for India is the rapid economic growth which has only led to stunning changes in the lifestyle of the rich and the middle classes. There is still widespread poverty in the cities as well as the countryside.

Many economists argue that the present top-down economic growth will never trickle down to the poor and so the economy needs to be directed more towards them. Therefore, policies on retail industries need to keep in mind our huge village consumers as well as producers.

References

Borensztein, E., J. De Gregorio and J. Lee (1995): "How does Foreign Direct Investment Affect Growth", *Journal of International Economics*, 45, pp.115-135.

CARE Research, (2012): 'The Indian retail Industry', CARE Ltd., Mumbai

Government of India (GOI) (2009): 'FDI Statistics', Ministry of Commerce & Industry, Department of Industrial Policy and Promotion.

Mohd. Shamim Ansari, M. Ranga (2010): India's foreign direct investment: Current status, issues and policy recommendations', *UTMS Journal of Economics*, Vol. 1, No. 2, pp. 1-16

Rajan, R.S., R. Kumar and N. Vargill, eds. (2008): "New Dimensions of Economic Globalization: Surge of Outward FDI from Asia", World Scientific Press.

Ramkishen S. Rajana, Sunil Rongalab and Ramya Ghoshc,(2008): "Attracting Foreign Direct Investment FDI to India", World Scientific Press.

UNCTAD, World Investment Report 2009;

URL:

<http://www.unctad.org/fdistatistics/www.unctad.org/wir>

<http://retailindustry.about.com/>

http://www.cci.in/pdf/surveys_reports/indias_retail_sector.pdf

<http://www.legallyindia.com/1468-fdi-in-retailing-sector-in-india-pros-cons-by-hemant-batra>

http://dipp.nic.in/DiscussionPapers/DP_FDI_Multi-BrandRetail_Trading_06July2010.pdf