
Multidimensional Investigation into the Indian Retailing Sector

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Introduction

The Indian economy is undergoing changes of many sorts. The retail segment, which until now has been dominated by the un-organized form of retail, too is seeing a frenzy commotion of various sorts among all the echelons: from those of the policy makers to the active and prominent players of the market.

For overwhelming majority of India's 1.2 billion people, goods are still bought in small amounts on a daily basis, at the hundreds of thousands of mom-and-pop "kirana" corner stores that serve cities suburbs, towns and villages.

Changing that equation is the goal of a host of retailers, both Indian and international, eager to invest in India's organized or "modern" retail sector. They want to flood the country with supermarkets, malls, big-box outlets and entertainment complexes which fundamentally redraw Indian shopping scene.

By 2011, industry experts believe modern retail could be worth as much as \$100 billion in total \$600 billion Indian consumer market.

Also the government has taken a good note of all this and has already paved the path for major changes in the segment, like increasing the FDI limit etc, it seems retail is going to play a very vital role in the growth of Indian economy as a whole.

Considering the bigger role that retail is expected to play in Indian economy, this study aims at

highlighting and analyzing the different facets of the retail industry from India's point of view.

Defining Retail as economic activity

RETAIL is the term given to the sphere of related and interdependent activities of making the produced goods available to its end user. More over to understand Retail, its necessary to understand the core term RETAILING associated with it that gives a better perspective for understanding Retail as whole.

"Retailing includes all activities involved in selling goods or services directly to final consumers for personal, non-business use."

Retailing has always been, in one form or the other, a part of our lives. Broadly defining Retailing can be classified as

1. Un-Organized Retailing
2. Organized Retailing

Un-Organized Retailing: It refers to the old and traditional way, shops, utility stores catered to consumers needs of a particular product or limited types of goods.

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Organized Retailing refers to the concept that has evolved over the ages for servicing and supplying the goods produced of varied kinds at one location and precisely under one roof. Organized retailing talks about retail business done by people after having proper license with them and fulfilling all legal formalities whereas in unorganized retailing no particular legal system with rules and regulations is followed. Manipulation can be easily done with the sales figures and taxes can be easily avoided.

INDIAN RETAIL SCENARIO

Message "organised Indian retailers have one message. "Move now or forego prime locations and market positions that will become saturated quickly". Global retailers that missed out on capturing first-mover advantage in China can make up for it in India. The retail market is changing fast, along with the lifestyles and buying habits of India's burgeoning population. As people look for ways to spend their money, global retailers should be looking for prime locations. (AT KEARNEY GLOBAL RETAIL INDEX DESTINATION : INDIA 2005)

At Kearney GRDI 2005 report resounds new hopes and promises that India can provide all the requisite infrastructure and facility for a healthy retail industry growth. This can help new beginning for the existing retail to profitably function in the market. Also a brand conscious and ever growing middle class with high paying capacity for a good lifestyle provides an abundant opportunity for retailers who are moving first.

With a contribution of 14% to the national GDP and employing 8% of the total workforce in the country, the retail industry is definitely one of the pillars of the Indian economy. In India, trade or retailing is the single largest component of the services sector in terms of contribution to GDP.

Indian retail market, is one of India's fastest growing industries is expected to grow from US\$ 350 billion to US\$ 427 billion by 2010. According to Euro monitor International, the Indian Retail market will grow in value terms by a total of 39.6 per cent between 2006 and 2011, averaging growth of almost 7 per cent a year.

Further, the country may have 600 new shopping centers by 2010. Mall space, from a meager

one million sq. ft. in 2002, has touched 40 million sq. ft. by end-2007 and an estimated 60 million sq. ft. by end-2008.

A look on the developments of retail segment in India could give a history of retail Industry. As we all know that retail is omnipresent ever since the system of barter was invented either in un-organized form or latter on in organized format. Indian retail industry has gone through journey as briefly retraced below:

HISTORY OF RETAILING IN INDIA

As the purchasing power of the middle class went on increasing the demand for high value life style goods are increasing. This lead to the initiative, which a few corporate, who initially followed the traditional system of disposing their goods, took in terms of establishing independent stores catering most of the related life style goods under the same roof. This was the first breed of home grown retailers and the term "Departmental Store" became a colloquial term for every urban household. However, this initiative was mainly restricted to the urban sphere and India's major population kept using the local "mom and pop" stores, run mainly by single family or a single person. In many cases people had to remain contained with deficiency of services and even poor quality of goods they were supplied with, as they had no place to go or had limited alternatives.

Then globalization bug bit India, which led India to witness many international brands coming to India. With a slew of initiatives, foreign policy and other measures from the government made a huge difference and lead the wind blow more towards the other aspect of retailing, i.e. organized retailing. Over the past few years the developments in the realms of retail have been so strong that many people have took organized retail synonymous to "retail".

India has always followed the unorganized retailing format that refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc. Unorganized retailing is still the prevalent form of trade in India –constituting more than 95% of total trade, while organized trade accounts only for the remaining 3-4%.

PRESENT PERSPECTIVE

The present economics scenario of India, w.r.t. retail has undergone a sea change. From being a closed self-reliant economy, India has accepted warmly being a part of the global economy. India is now more liberal and is favorably providing entry to MNCs; and is giving support to high entrepreneurial spirit. Moreover, many retail policies like reduction of excise duty, low taxes are also pushing retail to new levels in India and attracting more and more players in it.

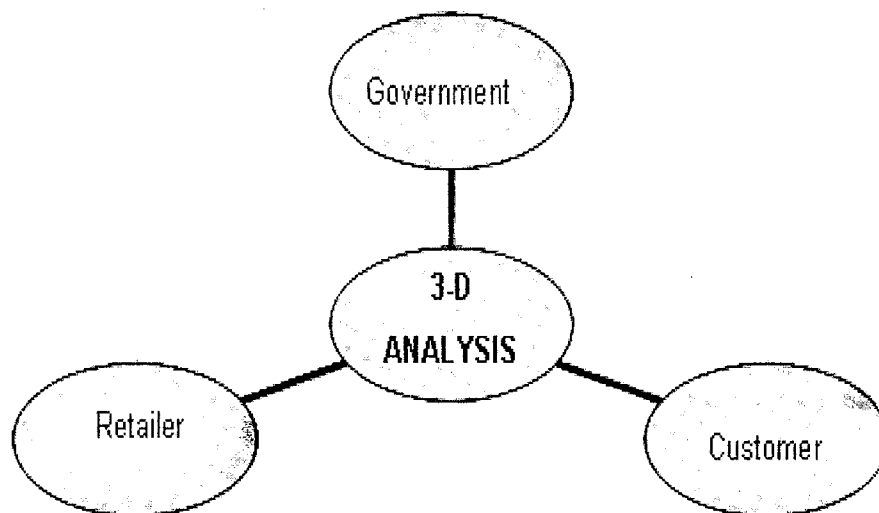
Modern retailing has entered India in the form of sprawling malls and huge complexes offering shopping, entertainment, leisure to the consumer, Retailers experiment with a variety of formats from discount stores to supermarkets to hypermarkets to specialty chains. However, kiranas still continue to score over modern formats primarily due to the convenience factor.

The organized segment typically comprises of a large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring system. It's no longer about just stocking and selling but about efficient supply chain management, developing vendor relationship quality customer service, efficient merchandising and timely promotional campaigns. The modern retail formats are encouraging development of well-established and efficient supply chains in each segment ensuring

efficient movement of goods from farms to kitchens, which will result in huge savings for the farmers as well as for the nation. The government also stands to gain through more efficient collection of tax revenues. Along with the modern retail formats, the non-store retailing channels are also witnessing action with HLL initiating Sangam Direct, a direct to home service. Network marketing has been growing quite fast and has a few large players today. Gas stations are seeing action in the form of convenience stores, ATMs, food courts and pharmacies appearing in many outlets. Looking at the vast opportunity in this sector, big players like Reliance and K Rahejas has announced its plans to become the country's largest modern retainers by establishing a chain of stores across all major cities.

REASONS FUELLING THE RETAIL FIRE: A 3-D ANALYSIS

WHY or HOW INDIA? Is the big question that looms around, after the retail uproar? Answer to this and many related questions can be found out by what can be called as a 3-D analysis of retail. Well 3-D analysis simply refers to analyzing and understanding the views and profitability from the perspectives of the three components involved, namely the government, the retailer/one who seeks to invest in retailing in India and the consumer. A brief analysis has been done to highlight the important aspects fuelling retail boom in India:



A. GOVERNMENT:

a) GDP GROWTH: Retail, as already seen, contributes more than 14% to the national GDP and thus fuels the economy. It brings in lots of money through various routes of investment, FDI included, in various segments.

b) GREATER EXPORTS: Not every thing that is produced in India is meant or consumed in India. Due to cheaper labour and resources many of the MNC retailers source their goods from India for their international retailing. This brings in revenues in terms of customs and excise.

c) TAX REVENUES: More the number of operators, more will be the sources of tax for the government. In addition to this, giving employment to Indians also increases the tax collection for the government.

d) EMPLOYMENT: Generation of employment has always been a big burden for the government. A big population of over a billion is a real hard task to manage. Thus government does anything to create livelihood for its citizens. Hence retailing is always welcome.

B. RETAILER:

For the retailer things that matter are security of its investment, profitability on investments made, cheaper operation cost as well as a good consumer base. Cheaper labour (skilled as well as unskilled) and resources have always attracted many MNCs across the globe to India, with each of them having a certain specific benefits to attain from operations in India. The retail pro government policies ascertain retailer's security for their investment. A booming Indian economy as a whole is very well supported by its wealthier middle class who are willing to spend on life style goods.

India still has a nascent market, so one can avail an early mover's advantage. Still a large number of tier-I, II, as well as tier-III cities are untouched of retail boom and hold a mammoth customer base for many retailers.

C. CONSUMER/CUSTOMER:

The basic motto driving the retail industry

world will is "customer is the king". And we can very well feel this in the war between the retailers to lower their prices to win over more and more customers and grab the largest possible chunk of it. Rather than just being the spending agent, consumers today are the commanding authority in almost all of the decision taken up by the retailers.

In the past few years the whole concept of shopping has been altered in terms of format and consumer buying behavior. With the increasing urbanization, the Indian consumer is emerging as more trend-conscious. There has also been a shift from price considerations to designs and quality as there is a greater focus on looking and feeling good (apparel as well as fitness). However, it can be said that the Indian consumer is a paradox, where the discount shopper loyalty takes a backseat over price discounts.

Moreover from the consumers' point of view the retail boom is always a win-win situation.

a) Retail provides all quality of goods at different prices suiting different segments of consumers.

b) It gives consumers the feel of having goods of their own brand. Also shopping is a fashion for many but not only for the rich and the affluent. Lower middle class people also feel high if they purchase goods from a suave mall. Thus retailers pay a lot of attention to this segment and costing of the goods belonging to the segment.

c) As more and more local/unknown brands get opportunity to meet more and more people through retailing, especially through malls and supermarkets, people get a variety of options to choose from.

It is very clear from the above discussion that a sound ecosystem can only be created if a stable symbiosis of these three vital elements of retailing fulfils their mottos without actually overlooking and tramping on the others interests.

IMPACT OF FDI/FINANCE ON RETAIL

Until the beginning of 2006, the government policy prohibited foreign investments in the retail trade sector, the effect of which was that major international retailers were prohibited from setting up their retail

operations in India. A recent liberalization measure with regard to foreign direct investment in the retail trade sector is directly linked with trademarks. Now, with government approval, foreign direct investment up to 51 per cent is permitted in retail trade of a 'single brand' product'.

The retail trade operations in ventures having foreign investment up to 51 per cent are required to sell products under a single brand only and the same brand should be in use internationally. Further, the government should approve the product categories. Finally, the products should be branded during the manufacturing process.

FDI in retail and the development of larger stores and supermarkets have the following advantages from the point of view of consumers:

1. FDI will provide access to larger financial resources for investment in the retail sector and that can lead to several of the other advantages described as follow.
2. The larger supermarkets, which tend to become regional and national chains, can negotiate prices more aggressively with manufacturers of consumer goods and pass on the benefit to consumers. They can lay down better and tighter quality standards and ensure that manufacturers adhere to them.
3. The fact that a well-known chain of supermarkets sources from a manufacturer becomes a stamp of quality. With the availability of finance, the supermarkets can invest in much better infrastructure facilities like parking lots, coffee shops, ATM machines, etc. All this will make shopping a pleasant experience.
4. The supermarkets offer a wide range of products and services, so the consumer can enjoy single-point shopping. The argument that the advent of FDI and supermarkets will displace a large number of *kirana* shops is similar to the argument used during the era of industrial licensing, which was meant to protect small-scale industries. But eventually the inefficiencies and quality standards of the protected small-scale companies become apparent even to socialist politicians and licensing was abolished. Small-scale industries have not

died. Instead, they have learnt to co-exist as suppliers to large-scale industries. In the case of retail trade, the *kirana* shops in large parts of the country will enjoy built-in protection from supermarkets because the latter can only exist in large cities. On the other hand, the ability of supermarkets to demand pricing and quality standards from manufacturers will benefit even *kirana* shops who can even buy from the supermarkets to sell the same products in smaller towns and villages.

It can be argued that since the advantages cited above are due to the scale of operations rather than the involvement of foreign capital, why should we allow FDI in retail trade? The case for FDI has more to do with the confidence and willingness to invest large amounts in a short period as well as the expertise based on experience. Even a modest chain of 200 supermarkets, to be set up all over India in selected towns and cities in the next three years, will require an investment of about Rs 2,000 crore (Rs 20 billion), at the rate of Rs 10 crore (Rs 100 million) per supermarket to cover the infrastructure and working capital. Each supermarket may take 2 or 3 years before it becomes profitable. There is a risk that a few of them may even fail. How many Indian entrepreneurs will be willing and able to commit this level of investment and undertake the risks involved? That is where the international experience and skills that may come with FDI would provide the confidence and capital.

Apart from this, by allowing FDI in retail trade, India will become more integrated with regional and global economies in terms of quality standards and consumer expectations. Supermarkets could source several consumer goods from India for wider international markets. That will benefit not only the Indian consumer but also open the door for Indian products to enter the wider global market. It is therefore obvious that we should not only permit but encourage FDI in retail trade. Just as in the case of most products, the brand name of the supermarket chain is a strong element in its growth and success. People have confidence in names like Sainsbury, ASDA, Marks & Spencer, etc. just as they have confidence in Indian brands like the Tata and Godrej. A possible outcome can be that Indian groups with strong local brand quality like the Tatas' will collaborate with

international supermarket chains like Sainsbury, to set up supermarket chains in India. It will be unwise for a government to interfere in this process.

BENEFITS OF FDI IN RETAIL

- Inflow of investment & funds
- Improvement in the quality of employment
- Generating more employment
- Increased local sourcing
- Provide better value to end consumers
- Investment & improvement in supply chain and warehousing
- Franchising opportunities for local entrepreneurs
- Growth of infrastructure
- Increased efficiency
- Cost reduction
- Implementation of IT in retail
- Stimulate infant industries and other related industries

DRAWBACKS OF FDI IN RETAIL

- Would give rise to cut-throat competition rather than promoting incremental business
- Promoting cartels and creating monopoly
- Increase in the real estate prices
- Marginalize domestic entrepreneurs
- The financial strength of foreign players would displace the domestic unorganized players
- Absence of proper regulatory guidelines would induce unfair trade practices like predatory pricing.

SUGGESTIONS

The thorough study and analysis of the retail movement in the Indian economy and the new format of organized retail, namely Malls, Special product alleys and even cosmetic galleries etc. becoming a household name, due to their reach, comfort and quality of service they provide. But as discussed above, it becomes very evident that though retail is taken for the greater good for the Indian economy, but also a few aspects of Retail has to be properly handled so that it doesn't create a bad taste for a few, generally to those who still strive on the older format of retail and to the poor.

Considering this and from the above analysis

the following suggestions become pertinent:

1. The policies of the government should be guided towards limiting the extent of impact the retail industry is going to have on the people dependent on older format of retail. Policies that would prohibit modern retailers from encroaching into the small periphery of these 'mom-n-pop' storeowners and eating into their share of livelihood. Small areas and particularly areas where residential societies and colonies exist and near by areas to these residential areas should only allow mom n pop kirana stores to serve them. Modern format retailers should be marked to commercial and bigger areas to safe guard the interests of these older format retailers.
2. All decisions and policies should not be made from the point of view of economic gains. An additional dimension of welfare and harmony through retail (both format) should be promoted e.g. ITC spent 3 years and Rs. 80 crore on R&D to come up with the concept of E-choupal and Choupal Sagar-rural hypermarkets.
3. Proper infrastructure and support should be provided to new ventures of modern retailing and also to the existing ones in urban, teir-II, Teir -III as well as rural areas, so as to effectively heap the benefits of this format of retailing.
4. A proper regulatory body to check and regulate the quality of the products retailed, particularly at the hypermarts should be set-up as it is very likely people might be provided with goods of poor quality or of lesser worth in order to reduce the prices of the goods due to excessive competition.

With technology and time retail to is getting in to new forms and dawning new facets like catalogue retailing and internet retailing, which require proper guidelines and regulations and policies from the government to safe guard people from any fraud or mal-service.

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