

Organised Retailing In India: Issues And Challenges

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INTRODUCTION

The word 'retail' is derived from the French term 'retailier' meaning 'to cut a piece of' or 'to break bulk'. Retailing forms an integral part of the marketing mix. It includes 6P's (product, price, place, people, presentation and promotion). It implies a first hand transaction with the customers. Retailing, therefore, involves a direct interface with the customers and it includes coordination of business activities right from the design stage of a product to its delivery as well as post-delivery services to the customers. Retail stores serve as a communication hub for customers. They transmit information to the customers through advertisement and displays. Retailing, therefore, facilitates the flow of goods and services from the manufacturers (and / or wholesalers) to the final users. In other words, retailers act as middle men linking manufacturers with the ultimate consumers.

Early retailing in India can be traced back to the weekly haats or gatherings at the market place and melas, where not only the local products, but also products from outside used to be on display for sale. Later on, local mom-and-pop stores (kirana stores) sprung up in the landscape to cater to the needs of the local population. Hence, the early Indian retail scenario was primarily dominated by local products and local vendors. There were no branded products at that time. The local manufacturer simply used to put up his wares for sale. Although this trading of goods was going on for ages, yet only in the recent past the buying and selling of goods has become more of finesse and brand dominated activity.

Of late, retailers have started providing some pleasant enjoyable experience to the consumers by providing improved facilities like shopping ambience, friendly layout and a single point-of-purchase laced with the lure of discounts. The modern, systematic and consumer oriented shopping culture is the mainstay of organised retailing.

GENESIS OF ORGANIZED RETAILING IN INDIA

Organized retailing appeared in the Indian horizon in the 70s when shops like Raymond's, Nalli's and Bata set up their exclusive stores and / or franchisees. The early 80s witnessed the emergence of "Akbarally's" in Mumbai and "Spencer's" in Chennai. These stores later evolved into multi-chain outlets and were the first to establish the concept of organized retail in India. During the 90s, with the opening up of the Indian economy through LPG (Liberalization, Privatization and Globalization), new retailing formats and exclusive outlets like Shoppers' Stop (1991) and Pantaloon (1997) appeared in India. In 1998, Shoppers' Stop opened two outlets and RPG's Giant hypermarket followed suit.

Towards the end of the 20th century, Indian retailing underwent a sea change with the opening up of numerous supermarkets, department stores, chain stores, hypermarkets, big discount stores and malls throughout the length and breadth of the country. The booming of the retail sector opened up new vistas so much so that this sector is now treated as the sunrise sector with prospects of unlimited growth. Therefore, it is no wonder that leading international players like Wal-Mart, Tesco, and Carrefour have already opened or are planning to open their outlets in India. Global brands like McDonald's, Swarovski, Lacoste, Domino's, Benetton etc. have also shown tremendous interest in the Indian retail trade. National players like Tata, RPG, ITC, Reliance etc. are cashing on this booming sector. Therefore, the country is witnessing introduction of many modern formats and techniques, which are changing the retail landscape for most of the product categories. In fact, South India is witnessing tremendous expansion of modern retailing due to the availability of land at prime locations with lower real estate prices. Places like Chennai, Bangalore and Hyderabad have emerged as a centre for organized retailing. In fact, in Chennai, nearly 20% of the food sales are accounted for by supermarkets and an equal share of consumer durables are sold through specialty chains such as Vivek's.

Organised retailing got a fillip in 2004 with the opening of new format stores, new generation shopping malls, FDI investment in retail and formation of Retailer's Association of India. The booming economy led to higher purchasing power of the consumers and market for consumer durables, clothing, automobiles, telecom products etc. witnessed an unprecedented growth. Kishore Biyani's Pantaloons launched a new format shopping mall

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named Central. Tata's Trent opened the first Star India Bazaar, InOrbit-a new generation shopping mall opened in Mumbai, and Forum started its operations in Bangalore. Apart from these new launches, established players like Pantaloon and Big Bazaar, Shoppers' Stop, Life style, Westside, RPG's Spencer's Retail expanded their operations by opening up new outlets.

The consumers have now the privilege of shopping in a variety of ways. From the neighbourhood kirana stores to hypermarkets, from discount stores to supermarkets and department stores, India's retail topography is now a composite mix of numerous retail-formats as depicted in Exhibit-1.

Exhibit-1: Indian Retail Formats

Name of the format	Description	Examples
Hypermarket	Mother of all retail formats and offers everything from foods to dry grocery to hardware to electronics. Typically, a hypermarket spans more than 100,000 sq. ft. of space and can be located outside the city center.	Future group's Big Bazaar, Spencer's Hypermarket and Trent's Star India Bazaar.
Supermarket	Focus is on variety of foods, grocery and household items and is located in residential areas.	Food World; Food Bazaar.
Departmental Store	Carries various 'departments' such as apparels, houseware, furniture, jewellery and appliances, but is much smaller than a hypermarket in terms of space and SKUs.	Shoppers' Stop, Westside, Lifestyle, Pantaloon etc.
Convenience Store	Offers accessibility, so is located in crowded neighborhoods.	Nilgiris in South, 24/7 in Delhi.
Exclusive Outlet	Stocks a single brand and could be either company-owned or franchised.	Raymond, Madura Garments, LG, Samsung, Maruti Hyundai etc.
Discount Store	Offers no frills such as spacious, well-lit and A.C. retail space, but makes up by marking down MRP.	Subhiksha
Cash-n-Carry	It is a B2B format, where the retailer sells to shopping establishments and large institutional customers.	Metro

Source: Krishna Gopalan, Ahona Ghosh, 'Retail Rush', Business Today, June 4, 2006, p. 96.

An analysis of the working of the retail industry in India from the studies undertaken by A. T. Kearney and Technopak reveals the fact that food and grocery tops the organized retail scenario as is clear from the Exhibit-2.

Exhibit-2: Composition of India's Total Retail Market-A. T. Kearney and Technopak

A. T. Kearney	%	Technopak	%
Food and Grocery	75	Food, beverages and tobacco	63
		Medical and health services	11
Clothing and textiles	7	Apparels	8
Consumer durables	4	Consumer durables and IT	5
Jewelry and watches	4	Jewelry and watches	5
Home décor and furnishing	3		
Beauty Care	2	Personal Care	5
Others	5	Others	4
Total	100	Total	100

Source: CII-A. T. Kearney Report "Retail in India: Getting Organised to drive growth" and Technopak's "Retail Outlook – October 2007".

The value of Indian retail industry was estimated at about \$321 billion in 2006 and is projected to touch \$368 billion in 2008 and is expected to grow to \$421 billion in 2010 and \$637 billion in 2015 assuming an annual growth rate of 7% (CII-A.T. Kearney report). The report also estimated the overall penetration of organized retail to be of 6%. A report by FICCI-Ernst and Young indicates that the organized retail market in India is set to double in the next three years and may increase its share to 30% of the retail industry's turnover in the next 10 years.

Of late, the consumer good sector has undergone phenomenal changes by increased doses of liberalization, continuous reduction in custom duties, abolition of quota permit raj, introduction of tariff based system for imports and sophistication in the manufacturing technology. As a result, retail chains have greater options now for outsourcing with improved average margins. Therefore, it is no wonder that more than 8000 SKUs (Stock Keeping Units) have sprung up throughout the length and breadth of India. The whole concept of shopping has transformed in terms of format and consumer buying behaviour. Instead of one point shops, sprawling shopping centres, multi-storied malls, and huge complexes offering shopping, entertainment, food and beverages under one roof vie for the attention of the consumers.

Therefore, it is no wonder that retailing has become one of India's largest industries accounting for 14% of the GDP and offering over 9% of the total employment opportunities (Source: Banga 2005; Gordon and Gupta 2004). Yet it is in nascent stage as compared to the industrialized nations and emerging Asian economies. Most of the retail stores in India cater to a wide range of customers with one-size-fits-all approach. But emergence of supermarkets, hypermarkets, shopping malls etc. and quality conscious consumers seeking customised offering,

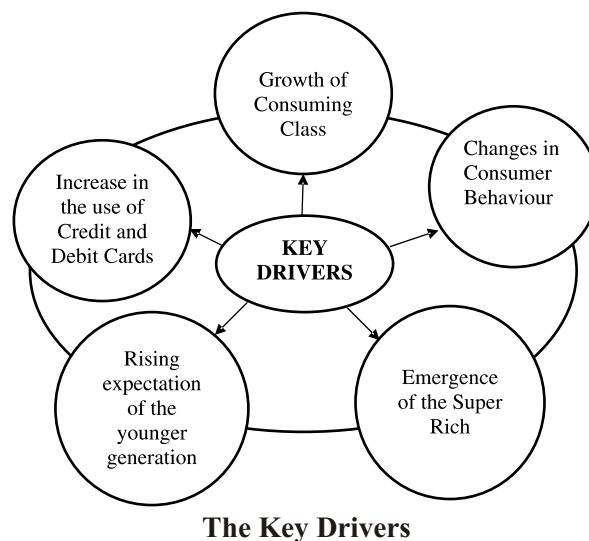
growing competition, and entry of foreign players have wrought havoc with traditional retail formats. Today, retailing has become the biggest catch for one and all, which is evident from its sheer size, which is pegged at a whopping Rs 10.36 lakh crore (2005-06) and is growing at around 5.7 per cent per annum. Though the space is still dominated by the traditional grocery shops or *kiranas* concerning about 95.3 % of the retail market pie, the organized retailing is fast gaining ground, recording over 37 per cent per annum growth. As per the India Retail Report-2007, the organised retailing accounts for around INR 48,500 crore and is estimated to reach Rs. 100,000 crore much before 2010.

GROWTH DRIVERS OF ORGANISED RETAIL IN INDIA

The phenomenal growth in the retail sector in India can be attributed mainly to:

1. The booming Indian economy.
2. Increasing proportion of young working population.
3. Increase in the number of working women providing for double income households.
4. Changing value orientations of the population from austerity to conspicuous consumption.
5. Increasing use of debit cards and credit cards.
6. Rapid Urbanisation.
7. Provides an alternative investment opportunity. It is estimated that total investment opportunities in the retail sector would be around USD 5-6 Billion in the next five years.
8. Tremendous scope for expansion in Tier II cities.
9. Sectors with High Growth Potential: Food and Grocery (91 per cent), Clothing (55 per cent), Furniture and Fixtures (27 per cent), Pharmacy (27 per cent), Durables, Footwear and Leather, Watch and Jewellery (18 per cent) are poised for very high growth in coming years.
10. Retailing in Rural Areas: Retail sector offers opportunities for exploration, expansion, and investment in rural areas, in spite of the fact that some of the Corporates and Entrepreneurs earlier have made a foray into it. ITC launched the country's first rural mall 'Chaupal Sagar', offering a diverse product range from FMCGs to electronic appliances to automobiles, attempting to provide the farmers with a one-stop destination for all their needs. There has been yet another initiative by the DCM Sriram Group called the 'Hariyali Bazaar' that initially started off by providing farm related inputs and services but plans to introduce the complete shopping basket in due course of time. Other corporate bodies include Escorts and Tata Chemicals (with Tata Kisan Sansar) setting up agri-stores to provide products / services targeted at the farmer in order to tap the vast rural market.
11. Wholesale Trading: wholesale trading also holds huge potential for growth. German giant Metro AG and South African Shoprite Holdings have already made headway in this segment by setting up stores selling merchandise on a wholesale basis in Bangalore and Mumbai respectively. These new-format cash-and-carry stores attract large volumes from a sizeable number of retailers who do not have to maintain relationships with multiple suppliers for all their needs.

The above mentioned facts can be diagrammatically depicted as follows:



BENEFITS OFFERED BY ORGANIZED RETAILING

In organized retailing, service quality, product assortment, packaging and ambience are of superior quality. The consumers are provided with air-conditioned atmosphere, well-lit décor, well behaved attendants, shopping carts, soothing music which creates a favourable climate for purchasing. Probability of Impulsive Purchasing becomes higher partly due to organised display and partly due to provision of promotional incentives for consumers. Further, it enhances the efficiency of supply chain and value chain so that marketability of farm produce is done with a better price. Apart from these, government also gains substantially as all taxes and duties are paid along the way and there are no leakages.

THE FLIP SIDE OF ORGANIZED RETAILING

Organised retailing in India has been mostly confined to Tier I and Tier II cities. It has not yet penetrated into block and taluk headquarters, what to speak of rural India. The poor purchasing power of the rural masses, lack of infrastructure, the penchant for living within their means and absence of the credit facility at retail markets are some of the reasons why rural India is lagging behind in this respect. The entrenched unorganized sector in retailing, even in urban areas, sometimes creates problems for penetration of the organized players. The experience of Reliance Fresh in this regard is quite harrowing. The main point of concern is that the small, local retailers apprehend that they would fade away without being able to face the stiff competition offered by the organized players. Political compulsions, debates on economic rationality, and the social impact that the modern organized retail would have may dampen the speed of transformation of the retail sector to some extent, but the process looks irreversible.

CHALLENGES AHEAD

Mr Jan De Jong, the worldwide Industry Executive (Retail), Microsoft and Board Member, NRF, in an interview to the *Storai* magazine opines that the challenges are: the absence of a full supply chain infrastructure needed to drive growth; the development of new and different formats that cater to the needs of the local market and the development of new channels through an E-Commerce strategy that fits the Indian market. Further, he goes on to say that because of the rapid change in the Indian market, the connection and integration between the consumers, retailers and supplier/manufacturers will be critical for success.

1. Infrastructure: The cost of acquiring the retail space is increasing by leaps and bounds from day to day. It is common knowledge that retailers work out a rent-to-revenue ratio with developers for their business. This figure normally varies from 4% for a hypermarket, 10% for a department store, and about 20% for niche retailers. But, at a monthly rate of Rs 200 per sq. ft., a department store might have to make Rs 2,000 per sq. ft. per month just to break even. In such a scenario, the reality of retail business could change and sustaining profitable business would be a daunting task for the retailers. Moreover, it is estimated that 40% of perishables grown in India rot during transportation due to the lack of refrigerated distribution network. (Brand Equity, p: 2, 22nd June, 2005). Therefore, it is of utmost importance that infrastructure like transport and refrigerated distribution network should be developed at the earliest.

2. Technology: A country where almost 96 percent of retailing is in the hand of unorganized retailers, it is predictable that the retailers are going to have operational inefficiency. They face several challenges like maintaining inventory, ordering and above all, keeping track of customers by maintaining a consumer data base. Technology can be useful in this aspect. Most of the organized retailers are using available and affordable technology to capture consumer information. Modern retailers are using scanned data to figure out the answers to a lot of questions. Through technology, retailers can capture a whole lot of segmentation variables and subsequently use them for shopper segmentation. Technology helps to take better decisions in some critical areas such as new product introduction, suitable product offering, quicker ordering and assortment planning. Retailers use shopper's loyalty data to design customized promotional offering for different set of customers.

3. Supply Chain: Till now, most retailers in India have invested heavily into the front end but relatively little in the back end and supply chain. As a result, wastage is rampant in the Indian scenario. Shoddy storage facilities and lack of operational efficiency are the major concerns in this regard. Studies reveal that Indian supply chain for food products is characterized by extensive wastage because of improper manual handling, poor packaging, and lack of available temperature controlled vans. Therefore, the retail sector must come forward to strike a balance between investing in front-end and back-end operations. Further, erratic supply disrupts the entire logistics scenario and ultimately has a great impact on the bottom line. Therefore, a mutual understanding between manufacturers and retailers is a must to remove the bottlenecks and inefficiency. For instance, railway

infrastructure can be utilized to carry fresh fruits and vegetables in temperature controlled containers from various nodal points essentially opened in railway stations to different parts of India. Probably that would help a lot in reducing wastage in the supply chain and retailers would be happy to use railway infrastructure rather than spending huge amount of money in developing infrastructure. New entrants like Reliance Retail is investing substantially in the supply chain; especially in cold chain for its 'Reliance Fresh' stores.

4. Human Resources: Even though A.T. Kearny places India as the second most attractive retail market for 2008, it is still lagging behind in the retail labor index and is positioned at the 8th place. At present, talent is in short supply and employee churn has been high for all players. It is very difficult to get experienced store managers to run stores. The retailer is ready with retail space in different malls and high traffic retail location but availability of qualified and experienced personnel is still a big concern for the retailer. Almost all retailers resort to poaching which is at best a temporary solution but not a permanent one. In view of the rapid expansion of retail business in India, retaining and developing workforce is of utmost importance to supply a talent pool to cater to the needs of this sunrise sector.

5. Store Positioning: The success of any retail business depends upon attracting and retaining the customer base. Therefore, retail stores should position themselves in such a way so that customers would find it convenient to come for shopping. If store positioning is not done in a proper location, the success ratio does not improve. Big players like Nanz failed to take up because of their improper positioning. As they targeted the upper end of the market and were not meant for the masses, they could not survive and faded away from the retail scenario in India. Crossroads (the Piramal holdings), when opened in the winter of 1999 in Mumbai's Haji Ali turned into a "tourist destination" overnight. Though the footfall often exceeded 100,000 at weekends; still the conversion rate was only 15%. An unpopular entry fee, the opening of another large-format mall (The Phoenix High Street) nearby, and the consumer disenchantment resulted in revenue stagnation. These problems propelled a strong "repositioning" in terms of an upscale premium mall targeting customers with annual household income of Rs. 3 lakh plus.

In the same line, players like Subhiksha and Big Bazaar have carved a niche for themselves through "value proposition" positioning.

6. Foreign Direct Investment: Though talk of opening up of the retail sector for FDI has been going on for quite some time now, no major breakthrough has taken place so far. The country is witnessing a strong economic growth of about 8-10% per year and this higher growth can be sustained by raising the quantum of investments from financial sectors both Indian and foreign because increased demand for goods and services generate huge demand for the funds. Internal forces may not be enough to meet this; therefore, the quantum of FDI in selected areas should be increased. FDI would bring a lot of positive changes both for the operators and the consumers.

The infusion of much-needed foreign investment would result in retail consolidation, increasing supply chain efficiency, flow of technical know-how and global practices. It will make shoppers feel that they are having an informative shopping experience.

7. The License-Raj: With the opening of the Indian economy to foreign players, the quota and license raj has come to an end; still retailing faces many a bottle neck. As per Retailers Association of India, at least 30 licenses are required to open a store. The licenses deal with a variety of issues and without them, stores cannot open business legally. One license allows retailers to stock yarn-this is needed because yarn is inflammable. Another permits them to put up a signboard. And yet another allows them to play music. As organised retail takes root in India, companies in the business are discovering that opening stores in India is one of the hardest parts because they face stiff opposition from some of the political parties in India- especially the left leading parties raise a hue and cry over organised retailing. The experience of Reliance, McDonald's etc. is pointer to this trend.

CONCLUSION

Retail is India's largest industry, accounting for over 14 percent of the country's GDP and around nine percent of total employment opportunities. It has emerged as one of the most dynamic and fast paced industries with several players entering the market. But the heavy initial investments in this sector dampens the spirit of the investors as their break-even takes longer time to achieve and many players have not tasted success to date. But the future is promising as the market is growing and government policies are becoming more favourable and emerging technologies are facilitating operations. However, while the prospect of the industry is promising; the shape of organized retailing is likely to undergo major transformation in the future. The most difficult point to note is the shifting preference of the Indian consumers who are known to shift loyalties with every 25 km and with every 10

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rupees. Therefore, for modern retailing to be successful, it must offer the convenience of the push cart peddlers and traditional retailers without compromising on the quality aspect of their commodities. Another bottle neck is the high rentals paid by modern convenience stores in the metropolis and other fast growing cities as they eat into the profit pie. Therefore, modern retailers should try to find a solution to this problem at the earliest.

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