

Growth And Challenges Of Indian Retail Industry

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Abstract

Indian Retail Industry has the dominant place in world economy. Over the last few years, it has become the largest growing industry of the country. At first, this industry was unorganized but with the passage of time, changes in the preference, changes in the taste of customers, the industry is getting organized at a rapid pace. As per a study there is an estimate that Indian Retail Industry can grow up to US \$920 billion by 2018. The industry is growing at an average CAGR of 22%. This paper attempts to find out the changes happening in the retail industry, workings and culture of organized or unorganized retail industry, major players in retail industry and also highlights the challenges that are faced by the Indian retail industry in future.

Keywords: Indian Retail, Retail Industry, Retail Players

Introduction

To impress Indian customers many international players have entered in the Indian retail market in the last 3 years. Due to this, Indian retail industry has acquired a lot of momentum, vitality and vibrancy. Not only this, domestic players have also started taking innovative steps to catch the consumer. Keeping with the pace, the early players are redefining their strategies to stay competitive and suit the new market needs. The next few years will witness rapid growth in the organized retailing sector with many leading international players trying to establish their presence in India by adjusting their own formats to suit local needs, tastes and buying behavior. Apparently, the next wave of will create ultimate boom for retail industry. A large portion of retail industry is becoming organized retailing sector. Organized retailing refers to trading activities undertaken by licensed retailers that mean, those who are registered for sales tax, income tax and other legal formalities etc. The corporate backed hypermarkets and retail chains and also the privately owned large retail businesses are also included in it. On the other hand, unorganized retailing, refers to the traditional formats of low cost retailing, like the local *kiryana* shops, owner manned general stores, convenience stores, small hand cart, vendors in the street and pavement vendors etc.

Objectives of Paper:

- To understand the evolution of retail sectors in Indian economy.
- To study the current retail trends in India.
- To examine the popular retail formats in India.
- To understand the growth trends of Indian retail sector.
- To study the factors having their impact on growth of organized retail sector.
- To study the future prospects of organized retail sector in India.

Research Methodology:

The data used in this paper is secondary data. All the data and the information have been collected from various books, trade journals, government publications and newspapers etc. and this research is descriptive in nature.

Evolution of Indian Retail Industry

In India, retailing is one of the biggest sectors and it is witnessing great revolution in India. The new and international

entrants in retailing in India signify the beginning of retail revolution. Indian retail market is expected to grow enormously in the next few years. The study and the data show that retailing in India was at opening stage in 1995 and now it is in peaking stage in 2018. The origins of Indian retail can be traced back to the emergence of Kirana stores and mom-and-pop stores in the streets and in the markets. These stores used to cater to the needs of local people. Ultimately, the government supported the rural retail and so many indigenous franchise stores came up with the help of KVIC (Khadi & Village Industries Commission). Indian economy began to open up in the late 1980s resulting in the change of retailing. The first few companies to come up with retail chains were in textile sector, for example, Raymond, S Kumar's, Bombay Dying, and Donear etc. Later on, Titan Company launched retail showrooms in the organized retail sector. With the passage of time new entrants in Indian markets moved on from manufacturing to pure retailing.

Before 1995, retail outlets such as Food world in FMCG, Planet M & Music world in Music industry, Crossword in books entered the market quickly. Shopping malls emerged in the urban areas started giving a world class experience to the customers. Eventually hypermarkets and supermarkets emerged in India. The evolution of the sector also includes continuous improvement in supply chain management, distribution, technology and back-end operations etc. This further led to more of consolidations, merger and acquisitions and huge in-house investments. India shows that retail market is expected to grow 10% a year and modern retailing is just the beginning.

In India, the most of the retail sector is still unorganized. The main challenge being faced by the organized sector is the competition from unorganized sector. Unorganized retailing has been around there in India for centuries. The main advantage in unorganized retailing is familiarity of the consumer which runs from the generation to generation. In unorganized sector, there is low cost, operated by owners and they pay low amount of taxes. Organized retail business in India is very small as compared to unorganized sector but has tremendous scope.

Trends in the Retail industry

- **Emergence of organized retail in the market:** Real estate development in the country and the construction of mega malls & shopping malls, is augmenting the growth of the organized retail businesses like EasyDay.
- **Spending capacity of youth population in India:** India has a large youth population, which is a very supportive environment to growth of retail sector.
- **Raising incomes and the purchasing power:** The per capita income in India has doubled in between 2001 and 2010 which has resulted in improved purchasing power.
- **Changing mindset of Indian customers:** The mind set of customer in India is gradually shifting from low price to high value, better convenience and a better shopping experience.
- **Easy credit to customers:** Emergence of concepts such as quick and easy loans, loan through credit cards has made purchasing possible for most of the Indian consumers, for products such as consumer durables goods.
- **Higher brand consciousness among customers:** There is high brand consciousness among the youth in India. More than 60% of India's population is below the age of 30 which leads to popularization of brands and products.

Growth Of Retail Industry In India

An increasing number of people in India are turning to the services sector for employment because of relative low compensation offered by traditional agriculture and other manufacturing sectors. In India, organized retail market is growing at 3.5% annually while growth of unorganized retail sector is near about 6%. Indian retail industry is currently at the point of inflection. Investments up to US \$25 billion are being planned by several Indian and multinational companies in the next 5 years. It is a very huge industry in terms of size and according to management consulting firms like TechnoPark Advisor Ltd. it is valued at near about US \$450 billion. Organized retail is expected to flourish about 16-18% of the total retail market in the next 5 years.

According to the 10th report of GRDI of AT Kearney, India is having a very much favourable retail environment and it is placed at fourth spot in the GRDI. The main reasons behind that is the 7% real GDP growth in 2017, forecasted yearly growth of 7.7% through 2017-18 & 2018-19, high saving and high investment rates and increased consumer spending of real income. According to a report, organized retail accounts for near about 7% of India's \$435 billion retail market and is expected to reach 18% by 2020. Food items account for 72% of total Indian retail, but it still remains under penetrated by organized retail.

Organized retail has a 32% share in clothing, apparel and other items and continues to see growth in this sector. A report by Boston Consulting Group (BCG) has revealed that the country's organized retail is estimated at US \$28 billion with around 7.5% real penetration. It is projected to become a US 260 billion business over the next decade with near about 22% penetration. The Indian analysts believe that the sector is likely to show significant growth of more than 9% over the next 10 years and also see rapid development in organized retail format with proportion likely to reach even more respectable growth of 25% by 2020.

The retail sector is the 2nd largest employer after agriculture, employing more than 35 million people with wholesale trade generating an additional source of employment to 5.5 Million Crores. It has impacted other sectors too. The enormous growth of retail industry has created a huge demand for real estate too. Property developers are creating retail real estate at an aggressive pace because they know that they will cater to the need of retail sector only if they have enough space to sell. During 2017-18, around 85 million square feet of retail space will be ready in Mumbai, NCR, Bangalore, Kolkata, Chennai, Hyderabad and Pune.

FDI Policy In Retail

Growing liberalization by Indian Government of the FDI policy in the past decade has been one of the main factors for transforming Indian economy from a closed economy into one of the favored destinations for international investments. The Indian FDI policy regulates the entire flow of foreign investments into the country and there are different caps for various sectors. The government is increasing FDI cap for the retail sector.

The government is considering in allowing FDI in multi brand retailing as a measure to make India even more attractive to foreign investors. The proposals, started by the Department of Industrial Policy and Promotion (DIPP) are currently at the discussion stage and are awaiting Indian government clearance. 100% Liberalization of FDI in multi brand retail is getting nearer to the reality.

First of all, On 10th Jan, 2012 Indian Government allowed Foreign Investment to float and run wholly owned single brand retail stores (not multi brand). FDI in retail trade is prohibited in multibrand but it is allowed in single brand retail trading in which more than 50% is allowed, subject to certain conditions led down by the government. The DIPP which is the part of ministry of commerce and Industry has allowed FDI up to 100% in single brand product retail trading under the Govt. approval route. However the Govt. has put on hold provisions for 51% FDI in multibrand retail as well.

Challenges Faced by the Indian Retail Industry:

- **International Standards:** Indian companies and International brands have a huge role to play in Indian economy and globally as well. Even though India has over 5 million retail outlets of different sizes & styles but still it has a long way to go before having a retail industry at par with proper International standards.
- **Not efficient supply chain management:** Indian retailing is still dominated largely by unorganized sector and there is still a much lack of efficient supply chain management. India must focus on improving the management of supply chain, which in turn would bring down the inventory cost and the saving can then be passed on to the consumer in the form of low pricing giving them the benefit.
- **Lack of Space:** Most of retail outlets in India have area which is less than 500 square feet. This is very small area as compared to International Standards.
- **Cultural Diversity in India:** Huge size of India and socio-economic and cultural diversity shows that there is no established model or consumption pattern throughout the country due to very much diversity. Manufacturers and retailers will have to make strategies for different sectors, areas, niches and segments which would be very challenging.
- **Issues in Real Estate:** The enormous growth of the retail industry has created a huge demand for real estate as we discussed above. Property developers are creating retail real estate at an aggressive pace in India. India will need additional retail space of 7000 Lacs sq. ft as compared to today in 2020.
- **Human resource problems:** Trained manpower shortage is also a challenge facing the organized retail sector in India. The Indian retailers are facing difficulty in finding skilled persons and also have to pay more in order to retain them in the industry. This again brings down the Indian retailers profit levels due to increased cost.
- **Frauds in Retail:** It is one of the primary challenges the companies would have to face in future. Frauds,

including vendor frauds, thefts, shop-lifting and inaccuracy in the supervision and the administration are the challenges that are very difficult to handle as the size increases. This is so even after the use of security techniques, such as CCTVs and point of sale systems, these types of frauds decrease the confidence of the customers. As the size of the sector would increase, the number of thefts, frauds and discrepancies in the system would also increase.

- **Challenges with Infrastructure:** There is a lack of proper infrastructure and distribution channels in the country that results in inefficient processes. This is a major hindrance for retailers because a non-efficient distribution channel is very difficult to handle which can result in big losses. Infrastructure does not have any strong base in Indian economy. Urbanization and globalization are constantly compelling companies to develop big infrastructure facilities.
- **Requirement of Logistics:** Transportation, including railway systems will have to become more efficient. Highways will have to meet global standards which will take a long time. Airport capacities and power supply will have to be enhanced as well. Warehouse facilities and timely distribution of goods are other areas of challenge which will be faced by the industry. To fully utilize India's potential in the retail sector, these major obstacles must have to be removed quickly.

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