A STUDY OF RETAIL FORMATS IN INDIA: AN OVERVIEW

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Abstract: Retailing is derived from French word which means to "break the bulk". Retailing is a set of business activity which directly sells the goods or services to the consumers for their personal use. The Indian retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, 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, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc.

***Index Terms* – Retailing, Industry, Organized, Formats, vendors.**

1. INTRODUCTION

India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores.[1] Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience. The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 9-10 per cent by the year 2010 bringing in a huge opportunity for prospective new players. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP [2] Over the past few years, the retail sales in India are hovering around 33-35 per cent of GDP as compared to around 20 per cent in the US. The table gives the picture of India's retail trade as compared to the US and China.

Retail Trade – India, US and China				
	Trade (US$ billion)	Employment (%)	Shops (million)	Organized sector share (%)
India	180-394	7	12	2-3
China	3 6	12	2.7	20
US	3 8	12.6-16	15. 3	80 .

Retail. 21st century 2006. [3]

The last few years witnessed immense growth by this sector, the key drivers being changing consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the Government increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers. In order to keep pace with the increasing demand, there has been a hectic activity in terms of entry of international labels, expansion plans, and focus on technology, operations and processes. This has led to more complex relationships involving suppliers, third party distributors and retailers, which can be dealt with the help of an efficient supply chain. A proper supply chain will help meet the competition head-on, manage stock availability; supplier relations, new value-added services, cost cutting and most importantly reduce the wastage levels in fresh produce. Large Indian players like Reliance, Ambanis, K Rahejas, Bharti Airtel, ITC and many others are making significant investments in this sector leading to emergence of big retailers who can bargain with suppliers to reap economies of scale. Hence, discounting is becoming an accepted practice. Proper infrastructure is a pre-requisite in retailing, which would help to modernize India and facilitate rapid economic growth. This would help in efficient delivery of goods and value-added services to the consumer making a higher contribution to the GDP. International retailers see India as the last retailing frontier left as the China's retail sector is becoming saturated. However, the Indian Government restrictions on the FDI are creating ripples among the international players like Walmart, Tesco and many other retail giants struggling to enter Indian markets. As of now the Government has allowed only 51 per cent FDI in the sector to 'one-brand' shops like Nike, Reebok etc. However, other international players are taking alternative routes to enter the Indian retail market indirectly via strategic licensing agreement, franchisee agreement and cash and carry wholesale trading (since 100 per cent FDI is allowed in wholesale trading).

II. Literature review

Mittal 2008 [4] proposed that the marketing strategy of retailers must take account of two sets of attributes. Such features must be used in the retail format. The loyalty drivers are a mix of goods and sales for clothing promotions, prices and recommendations / relationships when improving shopping experience are reputation, temperature (air) of the store ambient environments, temperature, return / guarantee. According to Jacobs et al. 2010 [5], ambience, show and self-service are the main determinants in new retail formats and add value services, technology-based industry, and many more with modern perspectives and practices. The specific approaches include cross-cutting, private label products, fun and entertainment, profitable distribution and strategic management. The changing market structure, Popkowski et al. 2001[6] noted that customers have more choices in formats and services for eg, less travel time, large variety of goods and better products etc. Research by Jackson et al.2010[7] explores to what degree the attitudes and shopping values of a mall visit vary between gender and The cohorts of birth. Results analyzes show that hedonic and amenities are not different by generational cohort, but there are generational variations in the attitude towards mall hygiene variables, place comfort and entertainment characteristics. According to Swinyard 1997 [8], US consumers ' shopping patterns are more sophisticated, expecting a high quality of services. In fact, the retail industry has a significant effect on economic and demographic patterns. Micromarketing, globalization, new and age-related formats. The consequences of retailing trends in the USA are merchandising shifts.

III. Research methodology

For this study the secondary data has been collected from various sources to understand the trend of retail sector in India, Various research papers, journals, books and online sources have been accessed to get insight into the topic.

3.1 Objectives

- To study the overview of retailing sector in India.
- To know the various retail formats prevailing in India.
- To study the major challenges and opportunities in retailing Industry.

IV. Retailing Formats in India

In the coming years it can be said that the hypermarket route will emerge as the most preferred format for international retailers stepping into the country. At present, there are 50 hypermarkets operated by four to five large retailers spread across 67 cities catering to a population of half-a-million or more. Estimates indicate that this sector will have the potential to absorb many more hypermarkets in the next four to five years.

Retailer	Current Format	New Formats, Experimenting with
Shopper's Stop	Department Store	Quasi-mall
Ebony	Department Store	Quasi-mall, smaller outlets, adding food retail
Crossword	Large bookstore	Corner shops
Piramyd	Department Store	Quasi-mall, food retail
Pantaloon	Own brand store	Hypermarket
Subhiksha	Supermarket	Considering moving to self-service
Vitan	Supermarket	Suburban discount store
Foodworld	Food supermarket	Hyper market, Foodworld express
Globus	Department Store	Small fashion stores

Traditionally, the small store (*kirana*) retailing has been one of the easiest ways to generate self-employment, as it requires minimum investments in terms of land, labour and capital. These stores are not affected by the modern retailing as it is still considered very convenient to shop. In order to keep pace with the modern formats, *kiranas* have now started providing more value-added services like stocking ready to cook vegetables and other fresh produce. They also provide services like credit, phone service, home delivery etc. The organized retailing has helped in promoting severa niche categories such as packaged fruit juices, hair creams, fabric bleaches, shower gels, depilatory products and convenience and health foods, which are generally not found in the local *kirana* stores. 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. Apart from metro cities, several small towns like Nagpur, Nasik, Ahmedabad, Aurangabad, Sholapur, Kolhapur and Amravati as witnessing the expansion of modern retails. Small towns in Maharashtra are emerging as retail hubs for large chain stores like Pantaloon Retail because many small cities like Nagpur have a student population, lower real estate costs, fewer power cuts and lower levels of attrition. However, retailers need to adjust their product mix for smaller cities, as they tend to be more conservative than the metros. In order for the market to grow in modern retail, it is necessary that steps are taken for rewriting laws, restricting the tax regime, accessing and developing new skills and investing significantly in India.

4.1 Classification of retailers:

Retailers can be classified according to their selling processes as **store-based retailers or non-store retailers**. In the following sections we will describe those categories of retailers and discuss the advantages of different retail forms.

- **Store Based Retailers:** These stores are categorized into two types: Ownership and Strategy mix.

A. Ownership: **–** Depending on the ownership pattern stores can be divided into six categories-

1) Independent Store
2) Chain Store
3) Franchise Store
4) Leased Department
5) Vertical Marketing System

1) Independent Store: - An independent store can be defined as a store, which is owned by a single retailer. This retailer does not own any other store. The Advantages of these stores are as follow: -
   - The independent retailer is free to select a convenient location and suitable store format (unlike the manager of chain store).
   - The independent retailer can concentrate on a small target to achieve its business objectives.
   - The retailer can decide on the timing, product assortment and price on the basis of the requirements of the target market.
2) Chain Store: - Chain stores have two or more outlets that are commonly owned and controlled. These stores have a centralized buying and merchandising system and sell similar lines of merchandise. Best buy and circuit city in the US and music world in India are examples of chain stores. The Advantages of these stores are as follows: -
   - Chain retailers can purchase at a low price and keep shipping costs low because they purchase in bulk.
   - As chain stores spread over a wide area, they can afford aggressive and expensive promotions of their products through electronic and print media.
   - Full tine experts employed for long term planning allowing chain stores to regularly monitor the opportunities and threats in the environment.
3) Franchise Store: - A franchise store can be defined as a store based on a contractual management between a franchiser and franchisee, which allows the franchisee to conduct a given form of business under an establish name and according to a given pattern of business. In other words, through franchising small business firms can become a part of a multi-unit chain type retail institution. McDonald's has become a successful franchise in India. The Advantages of these stores are as follows:
   - By becoming franchisees, retailers can own and operate retail businesses with relatively small capital investment.
   - Franchisees get well-known brands and goods/services lines.
   - Franchises gain exposure to standard operating procedures and management skills through their association with the franchiser.
   - Franchiser gets a better bargain per unit purchase on account of the total purchase volume of all the firms in that particular franchising system.
4) Leased Department: - A department in a retail store that is rented to an outside party is called a leased department. In other words, floor space within a store is leased and run as a separate business. A department store allots floor space for a shoe department, which is really run by a different company. The volume of sale of the leased department depends on the existing store's customer base and store's reliability. The Advantages of these stores are as follows:
   - Department store can reduce their cost by leasing departments. Leased department will bear a part of the costs of inventory and personnel.
   - By leasing out space, the store gains a regularly monthly income in the form of rent.
5) Vertical Marketing System: - A vertical marketing system is a distribution system in which the producers, wholesalers, and retailers act in a unified manner to facilitate the smooth flow of goods and services from producer to end-user. One channel member owns and or others have contracts with them, or have the power to control them. There are three types of vertical marketing systems.
   - Independent vertical marketing
   - Partially integrated vertical marketing system
   - Fully integrated vertical marketing system

B. Strategic Mix**:** Depending on the strategic mix retailers adopt, they can be classified into two groups:
1) Food Oriented Retailers
2) General Merchandise Retailers

1) Food Oriented Retailers**:** - Approximately, 40 per cent of Indian consumer expenditure goes into food and groceries, which amounts to allot rs.2, 00, 000 crore per year. NABARD (national bank for agricultural and rural development) estimates that organized food-oriented retailing would account for 20 per cent of the total organized retailing in India. The turnover is projected at Rs. 8, 300 crores (US$1.8 billion) by the year 2005. Some of the store formats used by the food-oriented retailers around the world are:
   a) Convenience Store: - Convenience store is relatively small stores that are located at near residential area. They are open long hours, seven days a week and carry a variety of products with limited assortment of merchandise. They generally carry high-turnover convenience products. These stores charges relatively high prices and operate in a 3000 to 8000 square foot area.
   b) Conventional supermarket: - Conventional supermarkets are similar to department stores, but unlike department stores, these stores focus on food and household maintenance products. These stores earn very limited revenues from the sale of non-food or general merchandise goods. The main characteristic of this store format is the self-service operation. In this type of store, the customer himself picks up whatever he wants. Some conventional supermarkets follow up an everyday low price (EDLP) policy. In such stores, goods are priced lower than in other stores.
   c) Combination store: - A combination store is a blend of a supermarket and a general merchandise store, where the general merchandise contributes more than 40 percent of the sales. It maintains a identity of both a food store and a drug store. Thus, allowing customers to do their food and drug shopping at one trip. The size of a combination store ranges from 30,000 to 100,000 square feet. These stores are designed to allow customers to have a one stop shopping experience. As economics of scale are higher in a combination store, the prices are less than those in a general merchandise store.
   d) Warehouse Stores: - Warehouse stores are discount food retailers with an average size of 100,000 square feet. They cater to customers who look for a low-price deal. Merchandise is often in cut boxes or shipping pallets and services are limited. Depending upon their functioning style, warehouse retailers can be divided into four categories:
      i. Warehouse showroom
      ii. Catalog showroom
      iii. Hypermarket

iv. Warehouse club

2) General Merchandise Retailers: - In general merchandise retailing the strategic merchandise mix ranges from a short assortment to a deep assortment of goods and services. On the basis of location, merchandise, price, store atmosphere, services and promotional mix, retailers are classified into:
   a) Specialty Store
   b) Department Store
   c) Off Price Retailer
   d) Variety Store

a) Specialty Store: A specialty store is a type of general merchandise store that sells limited lines of closely related products or services to a select group of customers. Specialty stores offer a particular product line with a deep assortment to its customers. These stores also assist customers by employing salespeople who have thorough knowledge of that product line.
b) Department Store: Department stores are large retail units that offer wide variety and a deep assortment of goods and services. These goods and services are organized into separate departments for the purpose of gaining control over various store activities like selling promotion and customer service. These stores strive to provide a one – stop shopping experience to customers. A typical department store offers clothing, shoes, cosmetics, gifts, luggage, and other household goods. Unlike specialty stores, department stores offer many different product lines. Shoppers' stop, Westside, globus, lifestyle and pantaloons are national level department stores. Akbarally benzer, KBN, Naganis, Bombay store and a to z are located in Mumbai. They are examples of department stores managed by regional players.
c) Off-Price Shop: Off-price retailers offer an inconsistent assortment of branded fashion oriented soft goods at low prices. These retailers can sell branded and designer-label merchandise at low prices as they purchase goods from manufacturers who have excess inventory (because of cancellation of orders, and irregular merchandise). Off-price retailers have a long-term relation with their suppliers.
d) Variety Store: Variety stores offer a deep assortment of inexpensive and popular goods like stationary, gift items, women's accessories, ware house etc. they are also called 5 and 10- cent stores because the merchandise in such stores used to cost that much. This retailing institution is dying in fact, Woolworth's, which used to the largest variety store, has been changing the format of its stores and making them into specialty stores.

- **Non-Store Retailers:**

In these type of retailing arrangements, retailers do not have a specialize are as a part of standard practice of business operations. It goes in for direct marketing methods to target a select group of customers. Here, store itself is taken to the customer rather than expecting customers to come the store. These retailers reach customer s and market merchandise using various methods like broadcasting "infomercials", broadcasting and publishing direct response advertising, publishing paper and electronic catalogs, going door to door soliciting customers, conducting in home demonstrations, selling from portable stalls (street vendors), and distributing through vending machines.

Non-Store Retailing takes place in two ways:

A. Traditional Non-Store Retailers
B. Non-Traditional Non-Store Retailers

A. Traditional Non-Store Retailers**:** Traditional non store retailing involves a variety of retailing methods. These are discussed below:

1) Direct Marketing: The Direct Marketing Association (DMA) defines direct marketing as an "interactive marketing system that uses one or more advertising media to yield a measurable response and/or transaction at any location". In direct marketing, a consumer is informed about the product through non personal media like TV, radio, magazine, newspaper, internet, etc. The customer places an order through mail or phone. In direct marketing, responses can be measured. This system allows retailers to keep track of consumer responses, and maintain a database of customers and prospective customers. In other words, through a direct marketing, a company can concentrate its promotional activities on potential customers. And by targeting potential customers, retailers can provide efficient and prompt service.
2) Peer to Peer: - In this type of selling the company's salesperson directly contacts customers and describes the product to them face to face. The salesperson demonstrates the use of the product and also provides a manual of usage. Avon, Eureka Forbes use the person to person approach to market their products.
3) Direct Selling: - Direct Selling is known as door to door selling. In this selling the various marketers make direct contact with the customers and give information about the product.
4) Vending Machines: - These are the electronic machines placed at the entering on the mall, etc. These machines are operated with the help of coins and cards. We have to put coin and card inside the machine and give instruction to the machine. Then it will work ATM machines are one of the vending machines. It will provide us services.
5) Catalog Marketing: - It is done through the various catalogs mailed to the target or selected customer. In catalog, there is basic information about the product, price and other information about the product so that it can help the customer to know more and more about the product.
6) Tele Marketing: - To provide more facility to the customer, telemarketing comes into existence. These marketing also avoid the various traffic problems. The customers have the telephone number so that they can place order through the telephone. *For example:* We give order on Telephone to Pizza Hut.
7) TV Home Shopping: - In this the sale of goods is done through the various shops of TV. *For example*: Asian sky shop, Tele Mall, etc.

B. Non-Traditional Non-Store Retailers**: -** Non-traditional non store retailing involves a variety of retailing methods. These are discussed below:

1) World Wide Web: - In this World Wide Web, everything is becoming easy because we can get any product with just a single click on the mouse of the computer and also place the order on the internet.

2) Video Kiosks: - A video kiosks is the computer terminal that displays the product and various information about the product. These are the touch screen and customer can easily select the product. These are mainly placed at the entrance of the Big Mall.
3) Video Catalog: - A video catalog is a retail catalog on CD – ROM Disk or on any software copy. We can play the CD and floppy and get full information about the product and can place the order with the help of telephone and personally reach to that place.

V. Opportunities And Challenges

Investment Opportunities in the Retail Sector: 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 the competitive landscape. The report further stated that global retailers such as Walmart, Carrefour, Tesco and Casino would take advantage of the more favorable FDI rules that are likely in India and enter the country through partnerships with local retailers. Other retailers such as Marks & Spencer and the Benetton Group, who operate through a franchisee model, would most likely switch to a hybrid ownership structure. A good talent pool, unlimited opportunities, huge markets and availability of quality raw materials at cheaper costs is expected to make India overtake the world's best retail economies by 2042, according to industry players. The retail industry in India, according to experts, will be a major employment generator in the future. Currently, the market share of organized modern retail is just over 4 per cent of the total retail industry, thereby leaving a huge untapped opportunity.

The sector is expected to see an investment of over $30 billion within the next 4-5 years, catapulting modern retail in the country to $175-200 billion by 2016, according to Technopak estimates. On the total organized retail market of Rs 550 billion, the business of fashion accounts for Rs 300.80 billion, which translates in to nearly 55 per cent of the organized retail segment in the country. Total fashion sector was estimated at Rs 1,914 billion and forms about 15 percent of the country's retail market of Rs 12,000 billion. Commanding such a large chunk of the organized retail business in India, fashion retailing has indeed been responsible for single-handedly driving the business of retail in India.

Challenges in the Retail Sector:

- The industry is facing a severe shortage of talented professionals, especially at the middle-management level.
- Most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding. Long intermediation chains would increase the costs by 15 per cent.
- Lack of adequate infrastructure with respect to roads, electricity, cold chains and ports has further led to the impediment of a pan-India network of suppliers. Due to these constraints, retail chains have to resort to multiple vendors for their requirements, thereby, raising costs and prices.
- The available talent pool does not back retail sector as the sector has only recently emerged from its nascent phase. Further, retailing is yet to become a preferred career option for most of India's educated class that has chosen sectors like IT, BPO and financial services.
- Even though the Government is attempting to implement a uniform value-added tax across states, the system is currently plagued with differential tax rates for various states leading to increased costs and complexities in establishing an effective distribution network.
- Stringent labour laws govern the number of hours worked and minimum wages to be paid leading to limited flexibility of operations and employment of part-time employees. Further, multiple clearances are required by the same company for opening new outlets adding to the costs incurred and time taken to expand presence in the country.
- The retail sector does not have 'industry' status yet making it difficult for retailers to raise finance from banks to fund their expansion plans.
- Government restrictions on the FDI are leading to an absence of foreign players resulting into limited exposure to best practices.
- Non-availability of Government land and zonal restrictions has made it difficult to find a good real estate in terms of location and size. Also lack of clear ownership titles and high stamp duty has resulted in disorganized nature of transactions.

VI. Conclusion

In this paper we have analyzed in detail the retail industry in India. We had initially started with the evolution of the retail sector in India, then moved onto its size, distribution and the growth of the retail sector. We have also covered issues like the Foreign Direct Investment in the retail sector, the untapped opportunities that exist in the retail industry in India.

VII. Major Findings

In this section we have coined down the major findings of our research.

- The Retail Sector in India can be split up into two, the organized and the unorganized. The organized sector whose size is expected to triple by 2015 can be further split up into departmental stores, supermarkets, shopping malls etc.
- In terms of value the size of the retail sector in India is $300 billion. The organized sector contributes about 4.6% to the total trade.
- The retail sector in India contributes 10% to the Gross Domestic Product and 8% to the employment of the country.
- In terms of growth the FMCG retail sector is the fastest growing unit and the retail relating to household care, confectionery etc, have lagged behind.
- The foreign retail giants were initially restricted from making investments in India. But now FDI of 100% is permitted in India only through single branded retail outlets. Multi brand outlets are still beyond their reach. Again, they can only enter the market through franchisees, this was how Wal-Mart had entered joining hands with Bharati Enterprises.
- On line retailing is still to leave a mark on the customers due to lacunae that we have already mentioned.

- In a nutshell we may conclude that the retail industry in India has a very bright future prospect. It is expected to enrich the Indian Economy in terms of income and employment generation.

VIII. Acknowledgment

The authors declare that they received no funding's from any source to carry out research work and do not have any conflict of interest.

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