



# The Changing Face of Indian Retail Industry- A journey from Unorganized Retail to Organized Retail

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## ABSTRACT

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. The India Retail Industry is the largest among all the industries. Modern retail industry plays an important and vital role in the economies of all modern societies. All the big business houses are entering in this sector and it is growing at a very past pace. The present study leads to explore the changing face of Indian Retail Industry in India. This paper also focuses on the shift of consumers from unorganized retail to organized retail. The retailing industry, which, until the early 1990s, was dominated by the unorganized sector, witnessed a rapid growth in the organized sector with the entry of corporate groups such as Tata, RPG, ITC and Bennett Coleman & Company into the retailing market. Retailing in India is progressively inching its way to becoming the next roar industry. The whole concept of shopping has tainted in terms of layout and consumer buying behavior, ushering in a uprising in shopping. Modern retail has entered India as seen in rambling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof. The changes in the organized retail industry are visible in the form of new retailing formats, modern techniques, exclusive retail outlets, emergence of retail chains etc. Shopping in India has witnessed a revolution with the change in consumer buying behavior and the format of shopping. The retail industry in India has modernized, and this can be seen from the fact that there are multi stored malls, huge shopping centre's and sprawling complexes, which offer food, shopping & entertainment all under the same roof. Now the purchasing power of Indian urban consumer is growing. Increased availability of retail space, rapid urbanization, and qualified manpower also boosted the growth of the organized retailing sector. Apart from this, social changes such as increase in the number of nuclear families and the growing number of working couples resulting in increased spending power also contributed to the increase in the Indian consumers' personal consumption.

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## Introduction

The Indian retail industry, consisting of over 13 million outlets is estimated to provide employment to over 18 million people, the largest employment after agriculture. The retail sector is seeing investments of up to Rs. 6000 crore by the 20 prominent retail players. With some 15 million retail outlets, India has the highest retail density in the world.

India is going through a retail revolution. All the big business houses are entering in this sector and it is growing at a very past pace. International giants in this sector like Wal-Mart, Tesco and Carefour are also trying to enter the Indian market. Retail is offering tremendous opportunities in employment.

The retailing industry, which, until the early 1990s, was dominated by the unorganized sector, witnessed a rapid growth in the organized sector with the entry of corporate groups such as Tata, RPG, ITC and Bennett Coleman & Company into the retailing market.

With the liberalization and growth of the Indian economy since the early 1990s, the Indian customer witnessed an increasing exposure to new domestic and foreign products through different media, such as television and the internet. Apart from this, social changes such as increase in the number of nuclear families and the growing number of working couples resulting in increased spending power also contributed to the increase in the Indian consumers' personal consumption.

India is the country having the most unorganized retail market. Traditionally it is a family's livelihood, with their shop in the back, while they run the retail business.

More than 99% retailer's function in less than 500 square feet of shopping space. The Indian retail sector is estimated at around Rs 900,000 crore of which the organized sector accounts for a mere 2 percent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer.

Retailing in India is progressively inching its way to becoming the next roar industry. The whole concept of shopping has tainted in terms of layout and consumer buying behavior, ushering in a uprising in shopping.

Modern retail has entered India as seen in rambling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof.

However, the post liberalization era, we saw retail industry undergoing volitional change. The changes in the organized retail industry are visible in the form of new retailing formats, modern techniques, exclusive retail outlets, emergence of retail chains etc.

## The India Retail Industry

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment.

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The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not tasted success of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of product or offering, to its delivery and post delivery service to customer. The industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today. The service sector accounts for a large share of GDP in most developed economies.

The retail sector forms a very strong component of the service sector. Retailing is not only an important aspect of the economic structure but very much a part of our lives. Although trading of goods have been existing since the olden days, it is only in the recent past that the buying and selling of goods have become more of formal and a brand dominated activity. In fact, today retailing is evolving into global high- tech business.

#### **Retailing Defined**

The word 'retail' is derived from the French word 'retailier', meaning 'to cut a piece off' or 'to break bulk'. In simple terms, it implies a first -hand transaction with customer. Retailing is all around us. It permeates our lives. Retailing involves the sale of merchandise from a fixed location, such as store, for direct consumption by the customer. It can be defined as an activity that ensures that customers derive maximum value from the buying process. This involves activities & steps needed to place the merchandise made elsewhere in to hands of customers or to provide services to the customers. Retailers organize the availability of merchandise on a large scale & supply them to consumers on a small scale. Retailing is the set of business activities that adds value to the products & services sold to consumers for their personal or family use.

*'Any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution'*

There are three major types of retailing, first is Market where buyer and seller are in contact. This involves selling on the sidewalks, streets etc. The second form involves shop or shop trading where goods are out of buyers reach and kept at a distance which the seller supply them on demand. The third type is virtual selling where products are offered online and then selling is done involving e-mail, online shopping.

#### **Trends in the Retail industry**

**1. Emergence of organized retail:** Real estate development in the country, for example, the construction of mega malls and shopping malls, is augmenting the growth of the organized retail business

**2. Spending capacity of youth of India:** India has a large youth population, which is a conducive environment to growth of this sector.

**3. Raising incomes and purchasing power:** The per capita income in India has doubled between 2000-01 and 2009-10 resulting in improved purchasing power.

**4. Changing mindset of customers:** The customer mind set is gradually shifting from low price to better convenience, high value and a better shopping experience

**5. Easy customer credit:** Emergence of concepts such as quick and easy loans, EMIs, loan through credit cards, has made

purchasing possible for Indian consumers, for products such as consumer durables.

**6. Higher brand consciousness:** There is high brand consciousness among the youth, 60% of India's population is below the age of 30 leading to popularization of brands and products

#### **Categories of Indian Retail Industry**

The Indian retail industry is generally divided into two major segments -

(a) **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.

(b) **Unorganized Retailing** - 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. The unorganized retail sector is expected to grow at about 10% per annum.

#### **Formats for entry in India**

Direct participation in Indian retail businesses is still not permitted under India's regime of FDI controls, although Minister for Commerce and Industry Kamal Nath has hinted that the total ban on retail FDI might soon become an equity participation cap, possibly of 49 percent. Till the time a ban is lifted from the FDI, quite a few international retailers in India have adopted different strategies for operating in India. These strategies and models include the following: Franchise agreements Franchising is the most widely used entry route by international retailers. Some fast food retailers have entered India through the master franchise route, while Pizza Hut has entered India through multiple regional franchisees. Cash & carry wholesale trading 100 percent FDI is allowed in wholesale trading, which involves building of a large distribution infrastructure to assist local manufacturers. The business model is built such that the wholesaler deals only with smaller retailers and not consumers. Metro AG, Germany was one of the first significant global players to enter India through this route. Shoprite of South Africa has effectively used a combination of cash and carry wholesale trading and franchising to set up their first hypermarket in the suburbs of Mumbai. Strategic licensing agreements This route involves the foreign company entering into a licensing agreement with a domestic retailer. Mango, the Spanish apparel brand has entered India through this route with an agreement with Major Brands, a departmental store in Mumbai.

#### **Quick facts on Indian Retail sector**

- Indian Retail sector is the fifth largest global retail destination.
- India retail market is dominated by the unorganized sector. in India organised retail trade accounts for merely 5% of the total retail trade. This highlights tremendous potential for retail sector growth in India.
- The top five companies in retail hold a combined market share of less than 2%.
- The Indian retail market has been ranked by AT Kearney's eighth annual Global Retail Development Index (GRDI), in 2009 as the most attractive emerging market for investment in the retail sector.
- The sector can be broadly divided into two segments Value retailing, which is typically a low margin-high volume business (primarily food and groceries) and Lifestyle retailing, a high margin-low volume business (apparel, footwear, etc). The sector is further divided into various categories, depending on the types of products offered. Food dominates market consumption

followed by fashion. The relatively low contribution of other categories indicates opportunity for organized .The sector can be broadly divided into two segments: Value retailing, which is typically a low margin-high volume business (primarily food and groceries) and Lifestyle retailing, a high margin-low volume business (apparel, footwear, etc). The sector is further divided into various categories, depending on the types of products offered. Food dominates market consumption followed by fashion.

- The relatively low contribution of other categories indicates opportunity for organized retail growth in these segments, especially with India being one of the world's youngest markets.

#### **Retail Market – Indian Scenario**

The growth of retail market could be attributed to many reasons. The important causes for the growth of retail markets are mentioned herein below:

- 1) Globalization
- 2) The economic boom
- 3) The rise in disposable income of the families
- 4) Women empowerment
- 5) Revolution in Information Technology
- 6) Improvement in infrastructural facilities in India

#### **Importance of Study**

Modern retail industry plays an important and vital role in the economies of all modern societies. Retailing in India is currently estimated to be a US\$ 200 billion industry, of which organized retailing makes up a paltry 3 percent or US\$ 6.4 billion. For retail industry in India, things have never looked better and brighter. Challenges to the manufacturers and service providers would abound when market power shifts to organized retail. Retail sales and employments are the key economic contributors and often mirror trends in a nation's overall economy. Retailing is a major part of United States of America's commerce. India is also embarking in this direction, career in retailing are going to catch up and are on pathway to success of young generation. Retailing comprises of business activities involved in selling goods and services to consumers for personal and family use. It is last stage in the distribution process of product.

Today, retailing has many challenges ahead. Retail firms needs to plan for and adapt to a complex, challenging competitive environment. It is very important to study the changing face of retail industry. The Indian environment is different from that of western countries in many ways. Indian cities are congested and a large part of the population is still concentrated in rural areas. The Indian houses are smaller and Indian consumer is still not used to buying in bulk on weekends. The rapidly rising income levels and accompanying changes in lifestyle greatly contributed to the growth of organized retail in West.

The Indian retail scene is hence very different from that prevailing in the developed countries. As organized retail grows, retail formats, which evolved in the West, needs to be modified and new formats suitable to Indian conditions, have to evolve. Hence, it is very important to understand the difference in the retailing environment and retailing institution in India. Recently, retailers are increasing the sophistication of retail operations and decision making tools for coordinating their supply chains, buying merchandise, and managing stores operations. Retailing consists of all activities involved in selling goods and services to consumers for their personal, family, or household use. It covers sales of goods ranging from automobiles to apparel and food products, and services ranging from haircutting to air travel and computer education. Hence it is

very necessary to understand the growth, challenges and opportunities of the retail industries.

#### **Objectives of Study**

Retailing has come to occupy a prominent position in today's modern society therefore it is very important to do study on the following area of Retail Industry-

1. To study & examine the changing face of Indian retail industry.
2. To analyze the factors responsible for sifting the consumers from unorganized retail to organized retail industry in India.

#### **Research Methodology**

The present study of mine is based on secondary data. I collected the information & data from various published and unpublished sources. Following sources are used for collection of data:

- Various research journals
- Periodicals
- Books & Magazine
- Newspaper
- Internet

#### **Review of Literature**

A. "The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India Retail Industry is the largest among all the industries, accounting for over 10 percent of the country's GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry." Paper Presented on Retail industries trends in India By Dr. M. Dhankabham lecturer in Commerce , Department of Commerce ,Rajasthan University. This paper provides detailed information about the growth of retailing industry in India. It examines the growing awareness and brand consciousness among people across different socioeconomic classes in India and how the urban and semi-urban retail markets are witnessing Significant growth. It explores the role of the Government of India in the industry's growth and the need for further reforms. In India the vast middleclass and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster.

B. "In addition small retailers, entrepreneurs in retailing, the second generation of traditional retailers can bring in science to the art of retailing." Book -Modern Retail Management. Author- J. N. Jain and P.P. Singh. Publication – Regal, New Delhi .First Edition - 2008. This book has given more emphasis on electronic aspect of retailing and provides a strategic look at retailing, current coverage and organization around a strategic decision- making model.

C. "Retailing is one of the world's largest private industry. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price.

It enables a country's product or service to enter into the global market."

### Findings & Conclusion

Increased availability of retail space, rapid urbanization, and qualified manpower also boosted the growth of the organized retailing sector. A large young working population, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the services sector are going to be the key factors in the growth of the organized Retail sector in India. The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the India Retail Industry.

The Indian consumer has undergone a remarkable transformation. Just a decade or two ago, the Indian consumer saved most of his income, purchased the bare necessities and rarely indulged himself. Today, armed with a higher income, credit cards, exposure to the shopping culture of the west and a desire to improve his standard of living, the Indian consumer is spending like never before. Organized retail with its variety of products and multitude of malls and supermarkets is fueling his addiction. His new mentality, in turn, is fueling the growth of organized retail in India.

Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, cosmetics, shoes, watches, beverages, food and even jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention to the brand building process. The emphasis here is on retail as a brand rather than retailers selling brand. The focus should be on branding the retail business itself. In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable

competitive advantage will be dependent on translating core value combining product, image and reputation into a coherent retail brand strategy.

Now –a-days, in India we see a rise in the purchasing power, and growth of a middle class which follows the western lifestyle. Hence, conditions are conducive for the rapid growth of organized retail in India. Even as organized retail grows, a large part of Indian retail is still likely to be unorganized.

There is positive correlation between the growth of retail industry & Indian economy. Organised retail industry created an ample job opportunities in India. The increase in the purchasing power of the Indian middle families increases the growth & development of retail industry in India.

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