

Growth Pattern of Retail Industry: Current Retail Scenario in India

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Abstract: Over the last few years Indian retail has witnessed rapid transformation in many areas of the business by setting scalable and profitable retail models across categories. Indian consumers are rapidly evolving and accepting modern retail formats. There is a new sense of confidence in Indian business. Faced with fast saturating western markets they are beginning to recognize the Indian consumer mass as the world's most probable unexplored area. The 2nd fastest growing economy in the world, the 3rd largest economy in terms of GDP in the next 5 years and the 4th largest economy in PPP terms after USA, China and Japan, India is rated among the top 10 FDI destinations, a country with the largest young population in over 867 million people below 45 years of age, more than 50 percent population under the age of 25 years, US\$ 130 billion investment plans in infrastructure in next 5 years. Alongside the population growth and its composition (expected to cross China by 2050 and 60 percent of population still below 25 years of age) were also found to attract foreign retailers towards Indian markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. The results of this study have several implications that should be of benefit to domestic and international investors in the Indian retail industry, and Indian shopping mall's management teams. The results may also help the present and future food processors and retail outlet owners to understand a diversified set of preferences for products and market attributes, so that they can make better decisions in the emerging organized food and grocery retail environment of urban Indian and also there is a need to spread their business like this in which one can choose the best for them.

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Introduction

Retailing is simply provides the end product to customer. So retailers are directly in touch with customers. It's a human tendency to have a comfort, luxurious life and have all facilities to him. And as there is a golden period going on now; anybody can enjoy these benefits. The retail sector in India is witnessing a huge revamping exercise as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and speciality stores. Western-style malls are introducing the Indian consumer to a shopping experience like never before (Jasola, 2007). India is rated the fifth most attractive emerging retail market. The Indian economy is likely to continue its steady growth with enhanced share in global trade and steady agricultural outputs. With changing demographic profile of the consumer, organized retailing is gaining importance. The Indian young consumers too have undergone a change in awareness and buying habits. The rising income levels coupled with the shoppers' desire for both convenience and new tastes and stimulation, gave ample opportunities for the organized sector to take shape in the form of supermarkets. India has a vast consumer market with its surging population, improving purchasing power, and fast growing economy. The world's largest youth population (45% of India's population is below 25 years and 81%

below 45 years) possessing both ability and willingness to spend along with market liberalization are the key drivers for the growth of Indian retail industry (Cygnus, 2006). It is difficult to fit a successful international format directly and expect a similar performance in India. The lessons from multinationals expanding to new geographic also point towards this. For example, Wal-Mart is highly successful in USA but the story is different in Asian countries like China. Therefore, it is important for retailer to look at local conditions and insights into the local buying behaviour before shaping the format choice. Considering the diversity in terms of taste and preferences existing in India the retailers may go for experimentation to identify the winning format suited to different geographies and segments. For example, the taste in south is different from that in north and this brings challenges to the retailers. Therefore, most of the grocery retailers in India are region-centric at this point in time. Now a number of retailers are in a mode of experimentation and trying several formats which are essentially representation of retailing concepts to fit into the consumer mind space. Apart from geography even rural and urban poses different kind of challenge to the retailer.

Literature Review

The journey of organized retailing is very old and the concept came from developed countries.

The origin of the word retail came from the French word 'retailer' which means to "cutting off, clip and divide or to break bulk" in terms of tailoring. To use the concept, retailing directly converts into the meaning that it is breaking of products in larger consignments into smaller packages for general consumption (Sasikumar and Cleetus, 2008). Retailing goes back to centuries it started as a very primitive business but today has grown tremendously. First, people were doing business with their neighbors. Goods were exchanged between them. This not only increases the exposure of a given good but also helps a lot towards the development of a more formalized system. Gradually, a few more start to get together to a place which in turn was called a fair. With the passing of time, the number of people doing business in a given fair increased, issues like security, transportation, become a matter of concern. This semi formalized system then gave birth to small scale groceries, where people start to provide more combinations in their own neighborhoods. Then came the issue of choice in given grocery, the choices the customer had was limited, this was the beginning of the concept of everything under one roof. Rapid evolution of these small scale groceries gave birth to the modern retail grocery system where, super markets were considered as the major form of retailing. Delivering a superior quality of service has been considered the basic retailing strategy (Berry, 1986 and Parasuraman, 1997). The organized retail industry has started in the late 1990s and after a decade it has surpassed all expectations. In the early 1990s 'Spencer Plaza' in Chennai and 'Crossroads' in Mumbai are considered to have pioneered the shopping mall concept in its modern format. There is a wide range of shopping experiences-bargains and discounts or high-end brands for couples, gaming and other amusement facilities for kids, a large choice of cuisines for family meals, and, of course, the multiplex theatres (Mitra, 2006; Kuruvilla and Ganguli, 2008; Kuruvilla and Joshi, 2010). But all has not been in rosy form in India. Much to their dismay, malls are finding that shoppers are spending lot of time and not money at the malls. The malls are always crowded but most of the people come for window shopping and not actual shopping. When the promised footfall and conversions does not materialize, then the relationship between the retailer and the mall management sours (Mitra, 2006; Prayag, 2006; Kuruvilla and Joshi, 2010). These retailers do this process for their survival and how they fulfill demands of customers.

Retail is the largest private industry in the world and is playing a significant role in the world economy because of the contribution that it makes to the economy of the country. Shajahan and Bharath (2004) mentioned that in India is the emergence of organized retail. The major

findings of the research in the year 2003, the customer spending had gone up by 9.6 percent compared to the previous year. The growth in 2003 implies a rise in market opportunity for retailers, estimated to be in the range of 150 billion rupees, among the Section A and B categories (upper and middle class), in urban India alone. Thathoo and Kacheria (2005) indicated in their paper "Organized Retail Inquilab in India" that organized retail represents a large untapped market in India that is likely to see tremendous growth in the coming years. New entrants are bound to see large returns. However, they must adapt themselves to the unique state of retail in India where infrastructure and regulations provide a little support. Retailers must also understand the tastes of the Indian consumer who has only recently started treating retail as a form of leisure. Yet, corner-stores and hawkers will continue to be a part of the Indian retail experience. These retailers have always survived on small, diverse sales with small margins. Organized retailers have not and are unlikely to worry about the threat of unorganized retail as both forms of the retail business cater to different preferences. Existence of a grocery store was a top most priority in low-end malls' consumers whereas high-end malls' consumers perceive these shops as fun spoiler and contrary to the image of malls. The Indian retail sector is largely traditional, but stores in modern format are emerging. Based on an analysis of retail developments in countries such as Thailand, Brazil and Greece, and some experience in India, it is possible to conclude that modernization of retailing in India would be influenced by some important factors. Paul et al. (2009) in their paper "Organized retail sector in India- An analysis of the key factors associated with the emerging market environment" have mentioned the key factors associated with the Indian retail market environment upon which survival, operation, processes, growth and development of organized retailing are contingent upon.

Objectives of the Study

The present retailing structure in India beckons a researcher to examine what sustains the organized retailer in the form of supermarket, hypermarkets, departmental stores, and discount stores or even the specialized grocery store. It is interesting to know what factors lay behind their success. An attempt has been made in this study to touch upon above mentioned untouched issues in terms of following objectives:

1. To examine the growth pattern of organized retailing and its scope in India.
2. To study the implications for Indian and Global retail players

Methodology for the Study

An important aspect of the current economic scenario in India is the emergence of organized retail. There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the future. Major industrial houses have entered this area and have announced very ambitious future expansion plans. Transnational corporations are also seeking to come to India and set up retail chains in collaboration with big Indian companies. However, opinions are divided on the impact of the growth of organized retail in the country. Concerns have been raised that the growth of organized retailing may have an adverse impact on retailers in the unorganized sector. It has also been argued that growth of organized retailing will yield efficiencies in the supply chain, enabling better access to markets to producers (including farmers and small producers) and enabling higher prices, on the one hand and, lower prices to consumers, on the other. There is no doubt that Indian organized retailing has gained a momentum of growth. The study is based on secondary data presented in the Literature Review section. The basic research approach used secondary data are literature focusing on retailing shopping

patterns in organized malls, available in national and international journals, articles, and websites.

Growth Pattern of Retailing in India

The global experience of organized markets has been summarized into three distinct waves in table 1 (Gulati et al., 2008). There is ensuring fourth wave that is likely to further revolutionize the spread of modern retail chain. Supermarkets in the form of large self service stores that emerged in 1930s were preceded by modern retail chain stores as early as 1870s. Retail transformations in developing countries are quite unique to that experienced by the developed countries although late comers in the game have been expanding at a much faster rate. Supermarkets emerged in the United States in the 1920s and 1930s and became dominant in 1950s. Ranked third by A.T. Kearney in 2007, supermarkets in China grew the fastest (at 40 percent per annum). Trade liberalization and opening up of the markets in early 1990s until today have had a favorable impact on the investment trends and patterns in retail. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes.

Table 1: The Three Waves of Retail (Food and Grocery) Revolution

Countries	Take-off Period	Share of supermarkets in Food retail	
		1990s (%)	2000s (%)
First wave South America, east Asia(outside China & Japan), North-central Europe, Baltic countries & South Africa	early-to-mid-1990s	10-20	50-60
Second wave Mexico, southeast Asia, central America & south central Europe	mid-to-late-1990s	5-10	30-50
Third wave Parts of eastern & southern Africa, central & south America, east Asia(China, Vietnam), Russia & India	late 1990s or early 2000s	5-20	--

Source: Reardon and Gulati, 2008

Structure of Retail Sector In India

Retail Sector can be divided into organized and unorganized sectors. Unorganized retailing refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops owner, general stores, *paan/beedi* shops, hand cart and pavement vendors, etc. Unorganized retailing characterized by a distorted real-estate market, poor infrastructure and inefficient upstream processes, lack of modern technology, inadequate funding and absence of skilled manpower (Guruswamy, M. et al., 2007). The share of

organized retail varies widely from just one percent in Pakistan and 4 percent in India, 75 percent in Brazil and 85 percent in USA (Table 2). In highly fragmented retail sector the organized retail only constitutes 6 percent of the current retail market which is expected to reach 10 percent in 2010 and 24 percent in 2025. Organized retail sector expected to grow from US\$7 billion currently to US\$ 30 billion by 2010. Tremendous growth potential exists in India when compared to other developing countries (Ernest and Young, 2008).

Table 2: Share of Organized Retail in Selected Countries, 2008

Country	% of Organized Retail Trade	% of Unorganized Retail Trade
Pakistan	4	96
India	6	94
China	20	80
Vietnam	22	78
South Africa	32	68
Brazil	75	25
USA	85	15

Sources: Economist Intelligence Unit (EIU), Euromonitor, A.T. Kearney Analysis, 2010

Indian Retail Sector: Share and Estimates

Although, Indian retail sector is at its nascent stage, there has been tremendous growth in this sector during the past few years. This sector has shown huge potential to become the largest revenue generating sector of India. A.T. Kearney, a renowned international consultancy firm, explored such potential of Indian retail sector and ranked it as fourth among the world's fastest growing retail markets in

the year 2011 as shown in table 3. (A.T. Kearney, 2011). Alongside the population growth and its composition (expected to cross China with 60 percent of population that is still below 25 years of age by 2050) were also found to attract foreign retailers towards Indian markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes.

Table 3: A.T. Kearney's 2011 Global Retail Development Index of Top Ten Emerging Markets across the Globe

2011 Rank	Country	Region	Market Attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time Pressure (25%)	GRDI Score
1.	Brazil	Latin America	100.0	79.4	42.9	63.9	71.5
2.	Uruguay	Latin America	85.0	73.8	63.6	39.6	65.5
3.	Chile	Latin America	84.3	100.0	30.3	44.3	64.7
4.	India	Asia	28.9	59.9	63.1	100.0	63.0
5.	Kuwait	MENA	80.4	80.6	57.3	27.1	61.3
6.	China	Asia	49.5	76.5	31.0	87.7	61.2
7.	Saudi Arabia	MENA	70.9	80.7	50.6	35.7	59.5
8.	Peru	Latin America	39.8	61.5	72.0	59.5	58.2
9.	United Arab Emirates	MENA	87.6	88.9	12.6	42.9	58.0
10.	Turkey	MENA	83.8	65.5	45.0	37.0	57.8

Source: A. T. Kearney Global Retail Development Index analysis, 2011.

Note: The higher the ranking, the more urgency there is to enter the market

Furthermore around 15 million retail outlets help India win the crown of having the highest retail outlet density in the world. According to Indian Brand Equity Foundation, retail trade accounts for 12 percent of the country's GDP and is expected to approach 22 percent by 2010. A report from McKinsey 'The rise of Indian Consumer Market' foresees the Indian consumer market growing by four times by the year 2025. The study estimates that the total retail business in India will grow at 13 percent annually from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12. The unorganized retail sector is expected to grow at approximately 10 percent per annum with sales rising from US\$ 309 billion in 2006-07 to US\$ 496 billion (See Appendix 1).

Implications for Indian Players

The Indian Retail sector is highly fragmented and is mostly run by the owner like 'Mom and Pop'

outlets. There are over 12 million retail outlets with an average outlet size of 500 sq.ft. There are a few medium sized Indian retail chains like Pantaloon, Shoppers' Stop, and FoodWorld. Numbers of giants in the corporate sector including Nirula, McDonald, KFC, Mother Dairy, Food World etc. are already ruling the food retailing sector in India. Other food retail stores such as Subhiksha, Food bazaar, Food lands etc. are entering into the sector in a big way (Appendix 1).

Implications for Global Players

Over the last few years Indian retail has witnessed rapid transformation in many areas of the business by setting scalable and profitable retail models across categories. Indian consumers are rapidly evolving and accepting modern retail formats. There is a new sense of confidence in Indian business. The world is now looking at India as the nation of the future. More significantly, India is well

in its fields of IT, biotechnology, pharmaceuticals and the automotive sector, pushing the thrust now on to the organized retail sector to facilitate the creation of a new surging modern India. The 2nd fastest growing economy in the world, the 3rd largest economy in terms of GDP in the next 5 years and the 4th largest economy in PPP terms after USA, China and Japan, India is rated among the top 10 FDI destinations, a country with the largest young

population in over 867 million people below 45 years of age, more than 50 percent population under the age of 25 years, US\$ 130 billion investment plans in infrastructure in next 5 years. Alongside the population growth and its composition (expected to cross China by 2050 and 60 percent of population still below 25 years of age) were also found to attract foreign retailers towards Indian markets.

Appendix 1: Growth in Indian Retail –Total vs Organized

Retail Segments	2003-04	2004-05	2005-06	2006-07	CAGR 2004-07 (%)
India Retail (Rs. billion)					
Food & Grocery	7,028	7,064	7,418	8,680	7.3
Beverages	212	309	373	518	34.7
Clothing & footwear	777	993	1,036	1,356	20.4
Furniture, furnishing, appliances and services	512	656	746	986	24.4
Non-institutional	950	972	1,022	1,159	6.9
Sports goods, entertainment, equipment & books	212	272	308	395	23.0
Personal care	371	433	465	617	18.5
Jewellery, watches, etc.	530	610	655	863	17.7
Total Retail	10,591	11,308	12,023	14,574	11.2
Organized Retail (Rs. billion)					
Food & Grocery	39	44	50	61	16.5
Beverages	11	12	13	16	14.7
Clothing & footwear	168	189	212	251	14.3
Furniture, furnishing, appliances and services	67	75	85	101	14.8
Non-institutional	14	16	19	24	20.0
Sports goods, entertainment, equipment & books	25	33	44	63	37.0
Personal care	11	15	22	33	46.9
Jewellery, watches, etc.	18	24	33	49	40.5
Total Organized Retail	350	408	479	598	19.5
Share of Organized Retail in Total Retail %	3.3	3.6	4.0	4.1	

Source: CSO, NSSO, and Technopak Advisers Pvt. Ltd., ICRIER 2008

Conclusion and Recommendations

From the above analysis, it can be predicted that India will remain the most sought after destination for retail giants in the times to come, indicated by its ever rising contribution to Indian GDP. India also has significant potential to emerge as a sourcing base for a wide variety of goods for international retail companies. Besides unorganized retailing, organized retailers are also becoming successful to find a place in the minds of Indian consumers. Therefore, it has become imperative that the entry of private as well as foreign players in this organized retail sector can only be resisted, however can not be avoided in any way. In addition, the analysis also clearly depicts that tremendous opportunities exist in Indian retail sector due to increase in GDP and per capita disposable income, larger populating density, urbanization, easier availability of credit and increased expectation about quality and variety among the Indian consumers along with many other related factors. The future of the organized retail sector will depend typically on factors like administrative regulations and policies

and real estate prices. It is advisable to these retailers that they should not overlook this market as it certainly carries huge and untapped potential (Devgan and Kaur, 2009). The benefits of the retail boom will be extended to smaller players, with good coexistence between the two to serve the communities better. Some of the recommendations coming out of this study are already on the oath of implementation. Other changes will also come over the due course of the industry's evolution. Additionally and perhaps more importantly, there is an opportunity for a step-change in the trajectory of retail sales growth. The future for organized retail in India is bright one. The demographics, the sense of optimism and the deep rooted entrepreneurial culture are ready ingredients for success. The results of this study have several implications that should be of benefit to domestic and international investors in the Indian retail industry, and Indian shopping mall's management teams. The results may help the present and future food processors and retail outlet owners to

understand a diversified set of preferences for products and market attributes, so that they can make better decisions in the emerging organized food and grocery retail environment of urban Indian and also there is a need to spread their business like this in which one can choose the best for them. Over the last few years Indian retail has witnessed rapid transformation in many areas of the business by setting scalable and profitable retail models across categories. Indian consumers are rapidly evolving and accepting modern retail formats.

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