Challenges in the path of Retail Industry

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Abstract

The paper provides the detailed information about the various challenges, which acts as a hurdle in the path of retail industry. Retail industry builds a strong linkage with world economy. Retailer is the first contact point who gets face-to-face interaction with the customer so that to satisfy its needs. The challenges faced by the retail industry are financial, Technological, Ethical and environmental. As the market is growing government policies are becoming more favorable, emerging technology also helps in the upliftment of retail industry. Due to the introduction of FDI various global giants gets chance to enter into the Indian retail sector, which leads to the reduction in the profit of Indian retail industry. Government is also not recognizing the retail industry, which becomes a challenge in the path of retail sector. Incapability of manager, location of the shop, lack of infrastructure, supply chain inefficiency unavailability of latest technology, sudden failure in the hardware and software gives a back stack to retail industry. As far its seen that the consumption of the energy is rising day by day. Retailers should be socially responsible so that face these challenges.

Introduction

Retail industry has a strong linkage with world economy. The retailing may be understood as the final step in the distribution of product for consumption by end consumer. In simple words any firm that sells products to final customer is performing functions of retailing. The retailing consists of activities involved in selling goods and services to ultimate consumer for personal consumption.

The manufactures created a product, advertise it and it sold through various distribution channels. In distribution channel of organization there has basically these parties are there like:

Supplier $\longrightarrow$ Manufacturer $\longrightarrow$ Distributor $\longrightarrow$ Whole seller   Retailer   Customer

So the retailer is the first contact point with customer and it plays a very important role in company for selling the products. We all witnessed that lot of changes happened in retail sector of India. The local banias has gradually

transformed him into a modern retailing. This change is a reflection of changes in customer expectations, Indian consumer lifestyle, habits; income; rising urbanization and emerging opportunities in services sector are going to be key factor.

Retailing can be broadly classified into:

a) Organized Retailing.

b) Unorganized Retailing.

Unorganized retailing refers to traditional form of retailing and these are also named as 'Kirana Store'. These are situated near the resident areas. India is the country having the most unorganized retail market. Traditionally it was a family's livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99% retailer's function in less than 500 square feet of shopping space. Organized retailing refers to modern form of retailing. These retailers called 'Licensed Retailer'. They are generally located in commercial establishment/ high street areas.

INDIAN RETAIL SECTOR: AN OVERVIEW

India represents an economic opportunity both as a global base and as a domestic market. The real GDP is expected to grow at 8-10 percent per annum in the next five years. According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17 (chart 1)

Chart 1

Size of Indian Retail (in US $ bn)
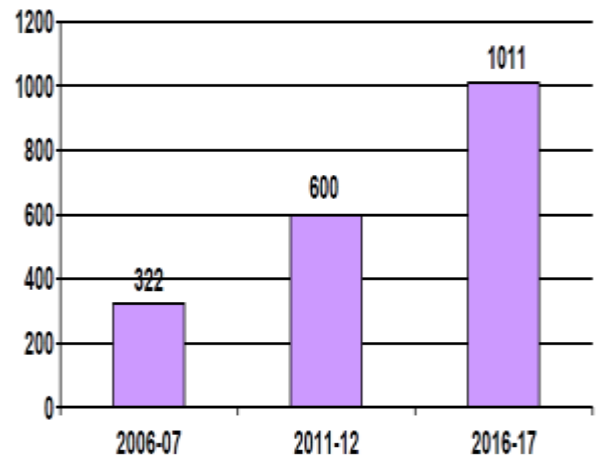
Source: Technopak Analysis, CSO and other sources

Modern retail in India could be worth US$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US$ 16.7 billion business, growing at over 20 per cent per year. In India the vast middle class 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. Indian retail is expected to grow 25 per cent annually.

The future of the India Retail Industry looks promising with the growing of the market, with the government policies becoming more favorable and the emerging technologies facilitating operations but the challenges facing the Indian organized retail sector are various and these are stopping the Indian retail industry from reaching its full potential.

The behavior patterns of the Indian consumer have undergone a major change. This has happened for the Indian consumer is earning more

now, western influences, and women working force is increasing, desire for luxury items and better quality. He now wants to eat, shop, and get entertained under the same roof. All these have lead the Indian organized retail sector to give more in order to satisfy the Indian customer.

Objectives of study and Methodology:

The objectives of our study are to analyze the current retail scenario in India and to identify the challenges faced by Indian retail sector. The paper is based on descriptive study. The secondary sources used for data collection. The information is collected from various research papers, reports, books, newspapers etc.

Challenges of retail sector: The retail industry play an important role in Indian economy but it also face challenges like financial, legal, operational, technical, environmental and ethical.

Financial challenges:

A sound financial strategy is basis for successful business. Only a retailer who makes a profit can sustain growth and continue to offer products and services to the customer. The success of retail depends on two key factors: the ability to manage costs and the ability to manage assets. Cost of procuring merchandise, Cost of sales, Investment in land or the lease is the main costs involved in retail sector.

- **Real estate cost:** In India the property investment or real estate is an important overhead cost. Real estate Prices: real estate prices in some cities in India are among the highest in the world. Even though the real estate prices have subsided recently due to the slowdown in

economies and the financial crises, these prices are expected to go up again in the near future. Real estate costs constituted a major part of their operating expenses so they cut the profitability of companies. With real estate prices escalating due to increase in demand from the Indian organized retail sector, it is posing a challenge to its growth. The lease or rent is one of the major areas of expenditure. Earlier on the lease or rents on properties were very high (among the highest in the world) at some prominent locations in major cities. Now companies are moving out from prominent malls of main cities and are re-negotiating the rental agreements with landlords to reduce costs. Some are even focusing on setting up shops in small cities.

- **High stamp duties:** In addition to the high cost of real estate, the sector also faces very high stamp duties on transfer of property, which varies form state to state. The presence of strong pro-tenancy laws makes it difficult to evict tenants.

- **Human resource cost:** The Indian organized retail players shell out more than 7% of sales towards personnel costs. The high HR costs are essentially the costs incurred on training employees, as there is a severe scarcity for skilled labour in India. The retail industry faces attrition rates as high as 50%, which is high when compared to other sectors also. Changes in career path, employee benefits offered by competitors of similar industries, flexible

and better working hours and conditions contribute to the high attrition.

Legal and regulatory challenges:

- **Foreign Direct Investment:** The Indian government has allowed 51% foreign direct investment (FDI) in the India retail sector to one-brand shops only. These have made the entry of global retail giants to organized retail sector in India difficult. This is a challenge being faced by the Indian organized retail sector. But the global retail giants like Tesco, Wal-Mart, and Metro AG are entering the organized retail sector in India indirectly through franchisee agreement and cash and carry wholesale trading. Many Indian companies are also entering the Indian organized retail sector like Reliance Industries Limited, Pantaloons, and Bharti Telecoms. But they are facing stiff competition from these global retail giants. As a result discounting is becoming an accepted practice. This too brings down the profit of the Indian retailers. All these are posing as challenges facing the Indian organized retail sector.

- **Retail not being recognized as an industry in India:** Lack of recognition as an industry by the government even though it is the second-largest employer after agricultures so it affects this retail industry in many ways.

- Due to the lack of established lending norms and consequent delay in financing activity, the existing and new players have lesser access to credit, which affects their growth and expansion plans

- The absence of a single nodal agency leads to chaos, as retailers have to oblige to multiple authorities to get clearances and for regular operations.

- Retailers are also required to take necessary approvals from local bodies to carry on with their business. There is no single window for clearances, and companies have to go to different agencies to get approvals, which is one of the biggest hurdles that the segment faces.

- Apart from the above Acts, the companies also follow certain regional rules and regulations on the basis of the stores' location. In some regions regulations are imposed on the organized retailers to restrict their expansion and to promote regional retailers; for instance, the Tamil Nadu government imposed a 10% surcharge on organized retailers; the West Bengal government has been asking mall developers to reserve 10% space for unorganized retailers.

- There are no specific rules and regulations that are to be followed by retail companies. However, there are certain laws that the retailers need to follow, which are general in nature and which pertain to the establishment of stores and the conduct of activities. These laws are as follows: Shop and Establishment Act, Standards of Weights and Measures Act, Provisions of the Contract Labour etc.

Operational challenges: Retail store is the place where customer takes a decision on purchase of products offered by retailer. The store also influences the perceptions that customers form in their minds about store, products, services and staff so the store itself becomes a critical asset of retail and it is essential that the operations are managed well to achieve and sustain customer satisfaction and be cost effective.

- **Capability of Manager:** The primary responsibility within the environment of retail store has with store manager. Typically the store manager is responsible for all the activities that are conducted within the store and would include the opening of store on time, scheduling of staff, cleanliness, ensuring adequate stock on the floor, closing of the store and also dealing with customer complaints. The store manager has main responsibilities toward a customer service, budgeting and planning, hire and train the employees, legal compliance etc.

- So if the manager is not well trained it creates a problem. The Indian retailers have difficulty in finding trained person and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels. Trained manpower shortage is a challenge facing the organized retail sector in India.

- **Location:** Time required to shop and travel to a particular location is very important factor that affect consumer

decision so this lead to increase in services offered by retailer.

- **Lack of basic infrastructure**: Poor roads and lack of cold chain infrastructure hampers the development of food retail in India. The existing players have to invest substantial amounts of money and time in building a cold-chain network.

Supply-chain inefficiencies: Supply chain needs to be efficiently managed because it has a direct impact on the company's bottom lines. We all feel that the organized retail sector is well-managed supply chain as compared to unorganized sector but when we have to compare it with international level the Indian organized retailers fall short like Wal-Mart and Carrefour in terms of efficiencies in supply chain. The retailers face some challenges during procuring goods from suppliers to delivering the same to end-customers.

- Inventory management: inventory management is the first challenge that retailers face at local store level as well as at warehouse level. Inventory level should be adequate in organization means it neither be excessive nor inadequate. Excess inventory often leads to an increase in inventory costs, and then to lower profits, so retailers like Pantaloons and Shoppers Stop have IT systems in place for inventory management. SCM-IT has helped retailers to plan their stock outs, replenish their stock on time, move stock from warehouse to stores, maintain adequate stock at a store to match

consumer preferences etc. However, the retailer may still face a big challenge in terms of efficiently implementing the supply-chain software across stores and integrating it with the central warehouse, which can be a time-consuming process, requiring trained personnel.

- Logistics refers to the movement of materials within a production facility, shipment of incoming materials from suppliers and the shipment of products to consumer. Movement of materials must be coordinated to arrive at the appropriate destinations at appropriate times. Workers and supervisors must take care so that items are not lost, stolen or damaged during movement.

- Procurement: Big organized retailers enjoy economies of scale based on their size and expansion plans. The economical benefits of scale in procurement are achieved when procurement is made in thousands or millions of units; however, the main challenge here is to procure adequate amount of stock according to customer requirements, failing which the resultant rise in inventory can affect bottom lines.

Technical challenges: Modern retail stores have use latest technology for assisting the customer. These systems include website, e-mail, fax, automatic attendant, online selling, store management, logistic handling etc. these modern types of Technology will no doubt play a key role in creating future successes, however collaborating with suppliers, vendors and using

technology to empower customers and serve effectively the customer and maximize the return. Retailers such as Wal-Mart, Tesco, etc. are aggressively moving forward with plans to upgrade their existing network infrastructure to intelligent networks. Sometimes these technological enhancements serve to frustrate rather than facilitate interaction.

- It is imperative to utilize a concise communication management system (CMS) to qualify the exchange of information. Individuals that have direct access to cash, inventory and the company's record keeping system, cause a significant number of losses related to acts of technology that is not secured.

- A sudden failure of hardware or software creates a problem for business and customer get frustrated.

- Trading electronically makes great strategic sense for buyers and supplier's alike, but technical complexity can be a barrier to realizing the benefits of enhanced supply chain visibility.

Environmental challenges: the businesses have grown in dynamic environment and there have a lot of challenges or issues. Packaging is one of the main environmental issues. No one can live without protecting the environment so we are working to reduce the amount of packaging we use and use recyclable, reusable or composable packaging.

At Sainsbury's, our approach to CR falls under five principles: best for food and health; sourcing with integrity; respect for our environment;

making a positive difference to our community; a great place to work. For example, with regards to sourcing with integrity, 100% of our bananas are now Fair-trade and all of our own-brand tissues, kitchen towels and toilet rolls are made from sustainable sourced wood fiber (certified by the Forest Stewardship Council). Of course, it's not just about what we as retailers are doing. It's also about changing the behavior of consumers, through initiatives such as encouraging customers to reuse their carrier bags each time they shop.

Energy: The consumption of electricity in commercial sector is increased day by day and this needs required immediate attention on this issue. The bureau of energy efficiency estimated that the need of energy is very high in future.
Retailers should taking a closer look at greener solutions that are not only good for the environment, but also reduce the total cost of ownership (TCO) and CO_2.retail sector should make some internal procedure for saving the energy. A simple change in procedures like switch off light when no use has can save energy. Retailers are also taking measures for waste reduction, trying to recycle the materials used and are switching over to environment friendly packaging materials.

Ethical Challenges: Retailers have realized the advantages of reflecting an ethical sense in business operations. The organizational environment plays a major role in the kind of ethical sense the employees possess. The ethical position of a retailer is driven by its corporate values and business objectives. Retailers are trying to ensure that their employees behave ethically with the customer as well as with colleges. Though there are many laws influencing the business environment of the retailer. These ethical aspects concern the merchandise buying and selling practices in the firm.

- The retailers need to recognize the rights of customer to safety, availability of complete information, the freedom to exercise his choice, delivery of services at predermined level and handle the complaints of customer.   .
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- Legislation governs the retail firm's operations and relations with its channel partners. Its relations with suppliers, competitors, consumers and employees are governed by appropriate laws. Legal restrictions are imposed on practices concerning pricing, product, promotion, distribution, trademarks and HR policies.

- Retailer should not discriminate on the basis of sex, status, religion, caste and community at the time of selection of employee.

- Retailers also need to be socially responsible and environmentally concerned. They often undertake activities that are beneficial to the society.

Conclusion:

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. . Retail Industry in India has come forth as one of the most dynamic

and fast paced industries with several players entering the market. Retail industry is facing various challenges in the path of its growth due to which reason the Indian retail industry is facing loss. Government should make efforts to uplift the retail industry by providing easy loans and various other facilities, which are required by them. So it's the responsibility of the retailer to move the India Retail Industry towards the path of succession for becoming the next boom industry.

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