

## **Retailing: Emerging Challenges and Future Prospects In India.**

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### **ABSTRACT**

The Indian retail industry has been thrown open to foreign majors and is packed with players who strive to offer great products and value-for-money to Indian consumers. The country holds a vast promise for retailers with its burgeoning spending power and a rising middle class.

The organized retail segment is in its nascent stage and has a huge potential to harness in the sub-continent. Foreign giants like Wal-Mart and IKEA have recently received the Government's nod to enter into the Indian market, after making all the necessary compliances.

This research paper provides the current status of the retail sector in India and the detailed information about the challenges faced by the retail sector in India. The paper includes the opportunities of retail stores, retail format in India and the recent trends in retail. This paper surveys the managers to understand the challenges impacting the retail sector. It concludes with providing the detailed opportunities available for the retail sector.

**KEYWORDS:** Retail Sector, Challenges, Opportunities, Emerging Trends, Retail Formats.

### **INTRODUCTION**

Retailing in India is receiving global recognition and attention and this emerging market is witnessing a significant change in its growth and investment pattern. It is not just the global players like Wal-Mart, Tesco and Metro group are eyeing to capture a pie of this market but also the domestic corporate behemoths like Reliance, KK Modi, Aditya Birla group, and Bharti group too are at some stage of retail development. Reliance, announced that it will invest \$3.4 billion to become the country's largest modern retailer by establishing a chain of 1,575 stores by March 2007. The last couple of years have been rosy for real estate developers and the retailers are finding suitable retail space in prominent locations. The industry is buoyant about growth and the early starters are in expansion mood. There is increased sophistication in the shopping pattern of consumers, which has resulted in big retail chains coming up in most metros; mini metros and towns being the next target. Consumer taste and preferences are changing leading to radical alteration in lifestyles and spending patterns which in turn is giving rise to new business opportunities. Companies need to be dynamic and proactive while responding to the ever-changing trends in consumer lifestyle and behavior.

Retailing in India is currently estimated to be a USD 200 billion industry, of which organised retailing

makes up 3 percent or USD 6.4 billion. By 2010, organised retail is projected to reach USD 23 billion and in terms of market share it is expected to rise by 20 to 25 per cent. The report also predicts a stronger retailer growth than that of GDP in the coming five years.

The generic growth is likely to be driven by changing lifestyles and by strong surge in income, which in turn will be supported by favorable demographic patterns. Rapid growth in international quality retail space brings joy to shoppers and shopping malls are becoming increasingly common in large cities, and announced development plans project at least 150 new shopping malls by 2008. The number of department stores is growing at a much faster pace than overall retail, at 24 per cent annually. Supermarkets have been taking an increasing share of general food and grocery trade over the last two decades.

### **OBJECTIVE**

1. To study the current status of the retail sector in India.
2. To study the retail formats.
3. To study the challenges impacting the retail sector.
4. To study the opportunities available and future of the retail sector

## KEY DEVELOPMENTS IN THE RETAIL SECTOR IN INDIA

Kottayam in Thiruvananthapuram, is an emerging market for luxury cars. BMW has launched its 'mobile showroom' in the city wherein people can check-out the brands' models and go-in for a test drive as well. A weather-proof and air-conditioned structure, the mobile showroom is a replica of BMW's luxurious dealerships.

Hindustan Unilever (HUL), India's largest packaged consumer goods firm, will soon launch the country's first liquid laundry detergent, hoping that wealthy consumers will not be hesitant to pay a premium for a product that promises to make their laundry chore easier. The company claims that the new product removes stains two times better than any other detergent powder in the market.

With 90 per cent penetration in the core detergent space, HUL is trying to create newer consumption opportunities in the over Rs 15,000 crore (US\$ 2.51 billion) laundry market with niche and premium products including Comfort fabric conditioner and Rin liquid blues in the post-wash segment.

Villeroy & Boch AG, the Germany-based bath, wellness and tableware firm, has partnered with Delhi-based Genesis Luxury Fashion to commence its operations in single-brand retail trade in India. Villeroy & Boch's application, seeking 50 per cent equity in the joint venture (JV) company for single-brand retail trade, has recently got a nod from the Foreign Investment Promotion Board (FIPB). The FDI infusion in the JV would be to the tune of Rs 1.12 crores (US\$ 187,463.60).

Genesis Luxury Fashion, that has brands such as Paul Smith, Bottega Veneta, shoe brand Jimmy Choo, Italian label Etro and Armani and home and personal care products from Crabtree and Evelyn under its business in India, will exclusively manage the distribution of Villeroy & Boch tableware products in the country. The alliance ensures the establishment of a distribution network through the opening of Villeroy & Boch's exclusive retail stores in India.

In a bid to tap the branded footwear market in India, which is estimated to be about Rs 30,000 crores (US\$ 5.02 billion), Aero Group (known for its flagship Woodland brand) is planning to revive one

of its old brands, Woods. The company is contemplating to open around 30 new, revamped Woods stores in 2013. The eight-year-old brand would now lay its focus on the fashion quotient, rather than the typical outdoor, rough and tough image of Woodland, and will have more of the range for women.

RP-Sanjiv Goenka Group's company Spencer's Retail is on an aggressive growth strategy, with a focus on hyper-format stores. The company intends to infuse about Rs 600 crores (US\$ 100.46 million) in setting up new stores and come out with branded and co-branded products in the food and beverage segment. One of the official spokesperson from the company revealed that Spencer's would set up 80 hyper stores in the next 48 months. As of now, the company has 132 stores, including 26 hyper stores, 14 super market and 92 daily (convenient) stores.

Godrej Interio, the furniture retailing arm of Godrej Group, is aiming for Rs 5,000 crores (US\$ 837.14 million) of turnover by 2016-17, with plans to invest over Rs 300 crores (US\$ 50.23 million) to expand manufacturing capacity and retail stores. The company is planning to set up more than 75 stores in 2013 itself with focus on tier II and III cities. The Indian branded furniture market is worth about Rs 10,000 crores (US\$ 1.67 billion) out of which Godrej Interio accounts for 15 per cent of the share. The company also plans to establish 200 specialty stores which will design and built products according to the consumer's convenience and preference.

### DEVELOPMENT OF RETAIL FORMATS

It is difficult to fit a successful international format directly and expect a similar performance in India. The lessons from multinationals expanding to new geographies too point to 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 grocery retailers 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.

## **MALLS**

Mall development is phenomenal in India. The mall mania is spreading fast and entering even the second tier cities in India. Real estate developers are jumping very fast to take this further from Metro cities to smaller cities and corporate houses like ITC and Sriram group are making steady progress to make this phenomena feasible in rural market also. There is no denying that the top notch cities like Mumbai, Delhi, Bangalore, Hyderabad, Kolkata, Chennai and Pune are leading the way but the second tier cities like Ludhiana, Chandigarh, Nagapur and Surat are catching the eye of all retailers. Retail developers are in such a mood that they may over ride the requirement in a specific city.

## **DEPARTMENT STORE**

A department store offers an extensive assortment (width and depth) of goods and services that are organized into separate departments for the purpose of efficient buying, assortment, promotion and above all ease of shopping for the consumer. Such a format provides the greatest selection of any general merchandize and very often serves as the anchor store in shopping mall or shopping centre. In India, the number of department stores is less compared to other retail formats such as supermarkets and discount stores. Shoppers' Stop is the first one to open a department store in the early 1990s and currently operates 19 stores in 10 different cities in India. The store strongly focuses on lifestyle retailing and mainly divides into five departments such as apparel, accessories, home décor, gift ideas and other services. Shopper's Stop is getting stronger and stronger year after year. It attracts more than 12 million shoppers every year with a conversion rate of 38 per cent. In the end of FY2000 this retailer had 5 stores and is in the process of reaching 39 stores with retail space of 2,502,747 sq ft by FY08. Another operator Lifestyle India began operations in 1998 with its first store in Chennai in 1999 and in March 2006 it opened one of the largest department stores in the same city. The store spreads over 75,000 sq. ft and store provides customers a great shopping experience with three floors of apparel, footwear, products for children, household furniture and decor, health and beauty products.

## **HYPERMARKET**

Hypermarkets have emerged as the biggest crowd pullers due to the fact that regular repeat purchases are a norm at such outlets. Hypermarkets not only offer consumers the most extensive merchandise

mix, product and brand choices under one roof, but also create superior value for money advantages of hypermarket shopping. With product categories on offer ranging from fresh produce and FMCG products to electronics, value apparels, house ware, do it yourself (DIY) and outdoor products, the hypermarkets are becoming popular formats in India.. Number of players operating hypermarket format are increasing day by day.

## **SUPERMARKET**

Unlike western countries where supermarkets are prominently visible, in our country this is lacking. The supermarkets largely concentrate on selling food related products and are considerably smaller in size compared to hypermarkets. Their value proposition is also different from the hypermarkets. The supermarkets offer relatively less assortments but focus on specific product categories. They do not play the game on price rather use convenience and affordability as their salient features. In India this role is played by the provision stores and sweet shops. Interestingly the fresh vegetables and fruits are sold on the foot path and in open markets. Traditionally consumers feel conservative to buy fruits and vegetables from air conditioned supermarkets. They prefer to buy either from the local mobile vegetable sellers or from the nearest *sabji* market. Probably that works as deterrent factor for the growth of supermarkets in India. But the situation is changing and slowly supermarket operators are coming to their own.

## **CONVENIENCE STORES**

A Convenience store offers location advantage for the shoppers and provides ease of shopping and customized service to the shoppers. It charges average to above average prices, depending on the product category and carries a moderate number of stock keeping units (SKUs). Normally it remains open for long hours and shoppers use it for buying fill-in merchandize and emergency purchases. In India, Convenience stores occupied 23 thousand sq. meter of retail space with sales of about Rs 1347 million in 2005 and are expected occupy 85 thousand square meter of selling space by 2010 (**Exhibit 6**). During the same period, sales is expected to touch Rs 5271 million and number of outlets are likely to grow from 510 to 2434. Twenty Four Seven a new format of convenience store is operational in Delhi from June 2005. Twenty Four Seven's portfolio comprises 3,500 stock keeping units (SKUs) of branded fast-moving consumer goods and another 3,500 SKUs of prescription and over-the-counter drugs besides 300 private labels products across food, focusing on staples such as

pulses and rice. The promoter of this format, the Modi group, plans to set up 500 convenience stores in Delhi and Mumbai by 2007.

### **DISCOUNTERS**

Wal-Mart, the largest retailer in the world is a discounter. Practically the discounters offer several advantages such as lower price, wider assortment and quality assurance. The discounters like Wal-Mart and Aldi were able to quickly build scale and pass on benefits to the consumer. However, in the long run success depends on the operational efficiency and consistent value delivery to the consumer. The same retailer Wal-Mart struggles in Asian countries like China but extremely successful in USA. It is believed that the average Indian consumer is highly price-sensitive and looks for savings in term of money in her grocery purchase. So price-value equation is a critical component in most of the grocery purchases. Despite this, there is hardly any national level discount chain operating in India. But retailers such as Aldi and Lidl are extremely successful in Europe. Due to regulatory issues no such retailers are allowed to sale their products directly to consumer

### **BRANDED STORE**

The major apparel brands in India are Madura Garments, Zodiac, Raymonds, Colour Plus and Arvind Mills. Some of branded apparel stores prominent in India are Madura Garments (140 stores), Weekender (75 stores), Benetton (100 stores), Grasim (110 exclusive showrooms), Madura Garments (40 stores), Wills Life style (40 stores), Lee (59 stores), Newport (500 stores), Wrangler (37 stores), John Players (80 stores) and Raymond. Raymond a nation wide retail chain has 260 Raymond shops deals in fabrics, apparels and accessories. In addition to that its distribution network includes 20 exclusive Park Avenue Parx stores, and 1,000 multi-brand outlets. These specialty stores sell the well known brands like Park Avenue, Parx, Manzoni and Be. Park Avenue is an up-market brand, while Parx and Manzoni are targeted at the casual wear and the premium ranges respectively. 'Be:' is especially a brand for women's wear. Similarly BK Birla's Century Textile plans to increase its number of outlets from 60 currently to 100 by next year.

### **CATEGORY KILLER**

The category killer concept originated in the U.S. due to abundance of cheap land and the dominant car culture. Category Killer is a kind of discount specialty store that offers less variety but deep assortment of merchandise. By offering a deep

assortment in a category at comparative low prices, category specialist can be able to "kill" that specific category of merchandize for other retailers. Generally such kind of retailers uses a self service approach. They use their buying power to negotiate low prices, excellent terms and assured supply when items are scarce. In India this kind of retail stores are not prevalent at this point of time. But there is scope for such kind of format. In India, Mega-Mart is one sort of category killer which sells apparel products.

### **DOLLAR STORES**

Dollar stores have their roots in America's homey five-and-dimes, the general stores that offered a range of products at low prices. But modern dollar-store retailers are having more sophisticated operations; leveraging their growing buying power to strike special deals with vendors and continuously striving for unique advantage of both convenience and price. Some chains sell all their goods at \$1 or less. Others offer selected items at higher prices. Most sell a combination of paper products, health and beauty supplies, cleaning products, paper and stationery, household goods, toys, food and sometimes clothing. Both private-label and brand-name goods fill the shelves. They are looking for employing technology to manage large distribution networks. US based My Dollar Store started operation in Mumbai through master franchise arrangements with Sankalp Retail Value. The store opened with a floor space of about 4,000 sq ft of space in Nirmal Lifestyle and offers wide range of products ranging from shampoos-to-juice-toys

### **EXPECTED FUTURE TRENDS IN THE RETAIL SEGMENT IN INDIA**

**A. FDI IN SPECIALTY STORES:** Multi-brand organized retail in specialty stores such as Consumer Electronics, Footwear, Furniture and Furnishing etc. are expected to expand and mature in the next few years. However the policy condition on sourcing will continue to be a major bottleneck for FDI in many of these segments.

**B. DOMINANCE OF UNORGANIZED RETAIL:** Flexible credit options and convenient shopping locations will help traditional retail to continue its dominance in the retail sector.

**C. GROWTH IN SMALL CITIES AND TOWNS:** Stiff competition and saturation of urban markets is expected to drive domestic retail players to tap the potential in small cities.

### **CHALLENGES AHEAD**

## **INFRASTRUCTURE**

Even though there is huge investment coming especially in the area of retail space development in the form of mall development, the challenges remain same from a retailer's view point as the cost to acquire retail space in mall is increasing. Researchers from Knight Frank India, a real estate consultancy, cipher that rentals in established malls in top metros have jumped by 20-30 % in the last six months. Generally retailers work out a rent-to-revenue ratio with developers at which they feel they can sustain their business. Normally, this figure varies between 4% for a hypermarket (that is, rent will constitute 4% of revenues) and 10% for a department store, to nearly 20% for very niche retailers. But, at a monthly rate of Rs 200 per sq ft, a department store might have to make Rs 2,000 per sq ft per month just to break even.<sup>25</sup> In such a scenario the reality of retail business could change and sustaining profitable business could pose the highest threat of its kind.

## **TECHNOLOGY**

Technology is going to play a major role in retail development in India. Retailers are going to experience the impact of technology in retail. Currently most of the retailers are operating almost everything manually. A country where almost 97 percent of retailing is in the hand of unorganized retailers it is predictable that the retailers are going have operational inefficiency. They face several challenges like maintaining inventory, ordering and above all keeping track of customer by maintaining consumer data base. Technology can be useful in this aspect. Most of the organized retailers are using available and affordable technology to capture consumer information. Modern retailers are using scanner data to figure out answer to lot of questions. Through technology retailers can capture a whole lot of segmentation variables and subsequently use them for shopper segmentation. Technology helps to take better decision in some critical areas such as new product introduction, suitable product offering, quicker ordering and assortment planning. Retailers use shopper's loyalty data to design customized promotional offering for different set of customers.

## **SUPPLY CHAIN**

Till now most retailers in India have invested majorly into the front end but relatively little on the back end and supply chain. Even in countries like the USA, Germany and England where organized retail is highly developed supply chain efficiency is a concern. The nature of retail sector in India is

different from other countries around the world. The biggest retailer in India, Pantaloon Retail is yet to open stores in each & every major city in India. Probably that is an indication of how the retail concentration is happening mainly in big cities. The sector is highly fragmented and organized retail contributes hardly 3-4 percent of total retailing pie. There are huge inefficiencies in the supply chain. For example Indian supply chain for food products is characterized by extensive wastage and poor handling. The wastage occurs because of multiple points of manual handling, poor packaging, and lack of availability of temperature controlled vans. The most important part of retailing business is to find a balance between investing in front-end and back-end operations.

## **HUMAN RESOURCE**

Even though AT Kearny places India as most attractive retail market for the second consecutive year in a row but it is lagging behind in the retail labor index and positioned in the 8<sup>th</sup> place. At this point of time talent is in short supply and employee churn has been high for all players. It is very difficult to get experienced store managers to run stores. For example, currently Pantaloon Retail India is operating around 48 Food Bazaars across the country and planning to increase the number to over 80 stores by the end of 2006. The retailer is ready with retail space in different malls and high traffic retail location but availability of qualified and experienced personnel is still a big concern for the retailer. Almost all retailers are indulged in poaching which is not a permanent solution. There is absolutely no issue in getting retailing space in prime locations but the bigger concern is to find additional store managers. The way the sector is growing in terms of opening stores it is very predictable that there is going to be huge scarcity of professionals to manage stores. Reliance Retail is planning to employ half a million work force in various levels in next five years. Currently the sector is facing a shortage of human resources. It is very difficult to develop human capital in a short time span of five years.

## **FOREIGN DIRECT INVESTMENT**

Though talk of opening up the retail sector for FDI has been making the rounds for quite some time now, no major breakthrough has happened yet. The country is expecting a strong economic growth of about 8-10% per year and this can be achieved by raising the rate of investments as well as by generating demand for the increased goods and services produced. Retail contributes about 10% to the national GDP and is expected to increase over

the next decade or so. PricewaterhouseCoopers estimates that Indian retail will get USD 412 by 2011 and majority of investment will be directed toward the two most popular retail formats: hyper markets and supermarkets.

**COMPLEXITY IN TAX STRUCTURE:** The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi point octroi with the introduction of value Added Tax (VAT) in 2005, certain anomalies in the existing sales tax system causing disruption in the supply chain are likely to get corrected over a period of time.

**CURRENCY FLUCTUATION:** In the past three months, the dollar/INR exchange rate has fluctuated by approx. 8 per cent. This may put considerable currency risk on any foreign investment in India.

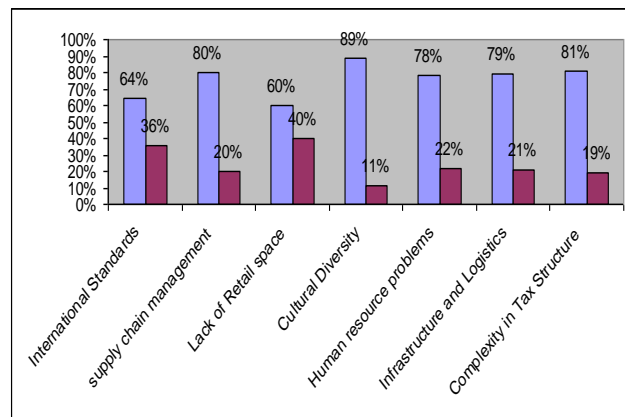
**RED TAPE:** Getting various government approvals: Entry of a multi-brand MNC retailer in the retail sector would fall under the approval route. This implies that the MNC retailer would have to go through different layers of Government departments before getting the go ahead.

**POLITICAL RISK:** The largest opposition party in India has opposed FDI in retail and some of its leaders have indicated that they will scrap the policy if their party comes to power. A political change in state and central governments puts a lot of political risk on investment in retail.

**INTERNATIONAL STANDARDS:** Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.

**CHALLENGES IMPACTING THE RETAIL SECTOR**

challenges	Yes	No
International Standards	64%	36%
supply chain management	80%	20%
Lack of Retail space	60%	40%
Cultural Diversity	89%	11%
Human resource problems	78%	22%
Infrastructure and Logistics	79%	21%
Complexity in Tax Structure	81%	19%



**CONCLUSION**

In the 2005 India Economic Summit, delegates conveyed mixed message about FDI but one final message was loud and clear that India’s retail development is inevitable. Most of the organized retailers in India are harping on quality, service, convenience, satisfaction and assured benefits to lure shoppers into the store. Retailers should create value for the consumer and must decide suitable vehicle to deliver desired consumer value. No doubt that retail format is one of the vehicles to deliver value proposition and also it helps to position the store in the mind of target shoppers. Probably in a growing market no one finds difficulty in pulling customer into store but that may not be sufficient to operate profitably. Retailers need to find out what matches consumer requirement and offer better than competition. Retailers certainly need to be innovative in designing the value proposition and deciding the format to deliver that to the consumer. It is not all about deciding the format but all about serving the consumer better, faster and at less cost. Retailers can use their store as an indicator of what they stand for and what value they offer. Retailers have to out think consumer in providing service and value. At this juncture, most of the retailers are concerned about growth in number of stores rather than creating value for consumer.

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