

# **RETELLING THE RETAILING IN INDIA: ISSUES & CHALLENGES**

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## **RETELLING THE RETAILING IN INDIA: ISSUES & CHALLENGES**

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The Indian economy is integrating with the world, and yet it simultaneously has its own dynamics, which cushion global shocks as in no other country. It has been a long way since India embarked on an ambitious economic liberalisation programme. Over the last seven years, many of its fruitful benefits have manifested themselves and one of the areas where growth is clearly reflected is retailing. The retail scenario in India is unique. The latest pronouncements of Finance Minister P. Chidambaram about the sector have fuelled more interest in the segment. Favourable demographics, rising consumer incomes, real estate developments, especially the emergence of new shopping malls, availability of better sourcing options - both from within India and overseas - and changing lifestyle are the prime reasons that fuelled this boom. These factors have transformed hitherto savings-oriented and conservative Indian consumers and made them akin to those in developed markets.

### **RETAIL TRANSFORMATION**

India's retail sector is largely unorganized, with about 15 million tiny outlets catering to consumer needs across the country – it employs the second-largest number of people after agriculture. Organised retail is now focused primarily on the 300 million urban "middle classes" and an additional 200 million rural rich, who form a consumer market worth more than US\$100 billion. India is witnessing a change in the age and income profiles of its over 1 billion population, which is likely to fuel accelerated consumption in the years to come. The country is believed to have an average age of 24 years for its population as against 36 years for the USA and 30 years for China. A younger population tends to have higher aspirations and spends more as it enters the earning phase. We Indians are currently in the second phase of the retail evolution,

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with domestic customers becoming more demanding with their rising standard of living and changing lifestyles. Change in customers' focus from just buying to broad shopping (buying, entertainment and experience) has led to a pick-up in momentum in organised formats of retailing. In fact, there has been a retail transformation. From 25 operational malls in 2003, the country is expecting to have over 600 malls by 2010. The retailing space is also expected to grow as much as 100 million sq ft by the year 2007-08. Small retailers are succumbing to the growing power of giant retailers and “category killers”. Store based retailers are facing growing competition from catalog houses; direct mail firms; news paper, magazine and television, direct to customer advertisements; home shopping TV; and e-commerce on the internet. In response, entrepreneurial retailers are building entertainment in to stores with coffee bars, lectures, demonstrations and performances. They are all marketing an ‘experience’ rather than a product assortment.

### **CHALLENGES AND OPPORTUNITIES FOR RETAILING IN INDIA**

According to the Global Retail Development Index, India is positioned as the leading destination for retail investment. A shopping revolution is ushering in India where, a large population between 20-34 age groups in the urban regions is boosting demand. This has resulted in huge international retail investment and a more liberal FDI. The market research report “Indian Retail Sector – An Outlook (2005-2010)” analyzes the greatly divided Indian retail market and the trends in its business. Issues such as foreign investment restrictions, modern merchandizing in India, logistics and payment terms for distribution, role of channel members and growth trends in different regions are discussed. Some of the key highlights of the report are as follows:

- a) Supportive policies and regulations of government for the retail sector.
- b) Increasing employment opportunities with stepping up of international retail brands in India.
- c) Opportunities for big western retailers like Wal-mart and Tesco.
- d) Increasing acceptance of e-retailing among Indian consumers.
- e) Evolution of franchise businesses in Indian retail sector.
- f) IT trends in Indian retail industry and technological expansion leading to the stores’ Security.

- g)** Company profiles of 25 key players, which include 6 international retail brands.
- h)** India's retail industry accounts for 10 percent of its GDP and 8 percent of the employment to reach \$17 billion by 2010.

In the month of January 2007, the Government of India released INDIA RETAIL REPORT 2007. Some of the key information from the report is worthwhile here to mention.

- a)** Organised retail in India has the potential to generate some 2.5 million direct jobs through retail operation and over at least 10 million additional jobs in retain support activities including contract production and processing, supply chain and logistics, retail real estate development and management etc.
- b)** The organised retail sector is expected to generate 10 to 15 million jobs over the next 5 years, and that the value of the organised retail sector in India by 2010 would be around Rs.2,00,000 crore or US \$ 45 billion.
- c)** Organised retailing is thus set to boost infrastructure growth and create efficient backward linkages. In the process, the sector will also create efficiencies, reducing marketing cost, wastages and redundancies.
- d)** The Indian format of retailing is going to retain its own touch, with numerous small retailers and other traders being located in the city centres and the large organized retailers coming up in the suburbs of the metropolitan cities.
- e)** After leading the IT bandwagon, India is poised to grow as a Retail hub. It is imperative to sustain the modernization of the retail sector and dispel the myth that the game is big Vs small or traditional Vs modern or organized Vs unorganized or local Vs foreign. What is needed is to create an appropriate environment to propel retail where all benefit.
- f)** India has a huge population that has the potential to consume if given the power of spending and that is only possible through large scale development, generating employment which is already happening.
- g)** Escalating real estate cost, scarcity of skilled workforce and structured supply of merchandise are the key challenge areas for the retail growth.

- h) Of the Rs.12,00,000 crore retail market, Food & Grocery retail is by far the single largest block estimated to be worth a whopping Rs.7,43,900 crore, but the share of organised sector in this is miniscule. Clothing, textiles and fashion accessories constitute the second largest block, but the largest segment as far organised retailing is concerned is the timewear sector with nearly 46 per cent share of the segment being organised. Moving forward, organized retailing is projected to grow at the rate of about 37 per cent in 2007 and 42 per cent in 2008.
- i) The organised sector accounted for Rs.55,000 crore (\$12.4 billion) business at current prices in the calendar year 2006 increasing its share to 4.6% of the total Indian Retail Value that stood at Rs.12,00,000 crore (\$270 billion).

### **GO RURAL: THE BUZZWORD FOR RETAIL EXPANSION IN INDIA**

In such rapidly changing circumstances with growing media penetration (rather participation) the mantra for success today is, 'Go Rural!'. Yes, the buzzword for the 21st century is bound to be full of rural idiom and mood. Making inroads into rural India and touching the 600,000 villages is the next big challenge before business and industry.

Realizing the new vistas for development in the rural India, Mr. K.V. Kamath, Vice-President, CII and MD and CEO, ICICI Bank Ltd., at the inauguration of the 15th Quality Summit of the CII Institute of Quality on the theme "People to Profit: Driving Performance through Organisational Excellence", cited the example of his organisation to show how important it was for companies to look at innovation and new models to tap the rural market where business activity would be migrating in a big way, and said "innovation is essential for sustainable growth and will prove to be the distinguishing factor for the organisation".

The retailing boom in India also throws light on increasing efficiencies in the agricultural sector by removing intermediaries in the food supply chain. While urban customers benefit from reduced prices of farm sector goods, rural farmers benefit by way of higher returns for their produce.

With several States allowing retailers direct access to farm produce, there is a new revolution taking shape in rural India. Farmers are cultivating crops as per specifications and requirements of retail companies such as Reliance, ITC, Godrej and many others. More than 2,000 small farmers, for instance, are benefiting from such arrangements in Andhra Pradesh.

Rural and semi-urban incomes are also expectedly to grow much faster in future, once the agriculture growth rate pushes up. Our civic laws concerning construction and property development also need to be re-looked, as the earlier convenience-stores get replaced by shopping malls and other formats of organized retail trade.

Going by the current growth trend and considering the fact that existing prominent players in organised retail have stepped up their expansion drive with Reliance announcing big plans and other Indian corporate houses too evincing keenness on investing heavily in this sector as also the inking of the joint-venture between the world's largest retailer Wal-Mart and Bharti – the organised retail in India has indeed gained top speed and is now on the verge of take-off. As India emerges as one of the most potential markets for global brands and retailers and retail reinvents the way modern Indians celebrate their spending power, India that takes pride in its rich culture, heritage, art, craft and variety of wares must capitalize on this ever escalating trend and channelise the spending towards healthy consumption for overall development of the country.

But unlike the experiences in most other countries, growth of Indian retail is not going to be a staggered and time-taking process: India has already shown the world how quick it can adapt to hi-tech products and services and will again set a record of sorts in setting up world class retail formats across the country in record time. In the next five years India should have retail entities strong enough to compete with the best in the world.

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