

Challenges and Opportunities of Organized Retail in India

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Abstract- *The emergence of Retail in India is cause for success of Indian organized Retail & Marketing. With the help of modern management techniques India will become the specialist Retailers in future. The relationship between the Retailer & customer is very close than other chains of distribution. Various drivers of organised retail are changing Demographics, increase in FDI's, economic growth, growing consciousness, infrastructure, growth of Real-Estate, rapid income growth consumers have a greater ability to spend. Various challenges faced by organised retail are Belief in unorganised retail, retail is not considered as industry, Rocket high prices real estate, High stamp duties, Inadequate infrastructure, Tough tax system, International standards, Poor supply chain management, Less retail space, Cultural difference and Scams in retail. Various opportunities faced are New products in stores, Growing urbanization, Small family size, Growing Farm and Non-Farm Income, Good interiors and exteriors, Retail generates employment, Battle in Price, Contract farming, supply chain management, Foreign Direct Investment (FDI) and Credit cards.*

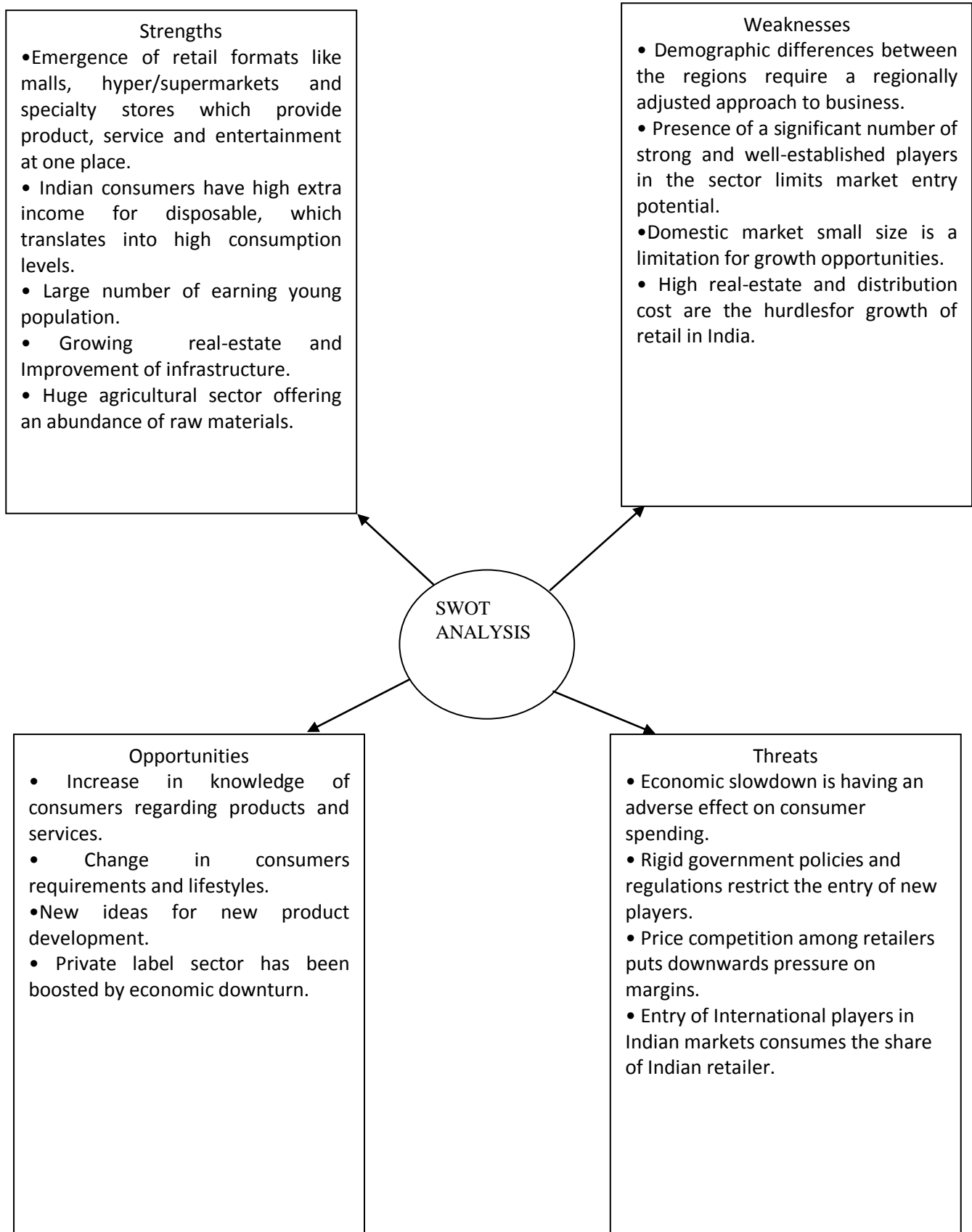
I. INTRODUCTION

The emergence of Retail in India is cause for success of Indian organized Retail & Marketing. With the help of modern management techniques India will become the specialist Retailers in future. The relationship between the Retailer & customer is very close than other chains of distribution. The word retail is derived from the French word retailer, means to cut off a piece or to break bulk. Therefore, a retailer is a dealer or trader who sells goods in small quantities. Retailing is the final step in the distribution of products, for consumption by the end consumers. It consists of all activities involved in the marketing of goods and services directly to the consumers, for their personal, family or household use. This excludes direct interface between the manufacturer and institutional buyers such as government and other bulk customers. Retail is India's largest industry. The sector has witnessed an immense growth in the last few years. The key factors responsible for the retail boom have been the change in consumer profile and demographics, increase in the

number of international brands available in the Indian market, economic implications of the government, increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers. 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 hair cutting to air travel and computer education.

Food Retail is one of the largest sectors in the global economy. In India, for a long time the corner grocery store was the only choice available to the consumers. With the increasing demand of the customers spurred by changing trends, aspiring needs for variety, the traditional retail gave rise to modern retail format. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains, convenience stores and hypermarkets. Traditionally, retailing has not been a structurally organized industry in India. Organized retail network was seen only in fabrics, with large mills building their own exclusive stores like Raymond's, Bombay Dyeing etc. The Indian Retail Industry on the whole is divided into organised and unorganised sectors. Unorganised/Traditional 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. In India, the terms large-scale, modern-format and organized are used synonymously even though they have different meanings. Large-scale refers to the scale of operation of retail business which in turn implicitly refers to a chain of stores. Modern-format basically refers to self-service. However, many of the self-service stores also called as "Supermarkets", are in the range of 500 square feet or less in size and are nothing more than independent mom-and-pop stores. And organized retail typically means large-scale chain stores which are corporatized, apply modern-management techniques and are very likely to be self-service in nature. Most of the estimates of organized retail market size refer to only large-scale retail.

II. SWOT ANALYSIS OF ORGANIZED RETAIL IN INDIA



III. DRIVERS OF ORGANIZED RETAILING IN INDIA

- Changing Demographics
- Increase in FDI's
- Economic Growth
- Growing Consciousness
- Infrastructure
- Growth of Real-Estate
- Rapid income growth consumers have a greater ability to spend.
- Growing urbanization: Larger urban population that value convenience, coupled with the higher propensity of the urban consumers to spend.
- Increase in young population: Growth of the post-liberalization maturing population, with the attitude and willingness to spend.
- Expenditure vs saving :Consumers are willing to borrow for present consumption, which has resulted in the emergence of big retail chains in most metros; mini metros and towns.

IV. RETAIL FORMATS IN INDIA

- Hyper marts/supermarkets: large self-servicing outlets offering products from a variety of categories.
- Mom-and-pop stores: they are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.
- Departmental stores: are general retail merchandisers offering quality products and services.
- Convenience stores: are located in residential areas with slightly higher prices goods due to the convenience offered.
- Shopping malls: the biggest form of retail in India, malls offers customers a mix of all types of products and services including entertainment and food under a single roof.
- E-trailers: are retailers providing online buying and selling of products and services.
- Discount stores: these are factory outlets that give discount on the MRP.
- Vending: it is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machines.
- Category killers: small specialty stores that offer a variety of categories. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets or MBO's.
- Specialty stores: are retail chains dealing in specific categories and provide deep assortment. Mumbai's

Crossword Book Store and RPG's Music World are a couple of examples.

V. CHALLENGES FACED BY ORGANISED RETAILERS

Organized retail in India is little over a decade old. It is largely an urban phenomenon and the pace of growth is still slow. Some of the reasons for this slow growth are: -

- Belief in unorganised retail - The very first challenge facing the organized retail industry in India is competition from the unorganized sector. Traditionally retailing has established in India for centuries. It is a low cost structure, mostly owner operated, has negligible real estate and labour costs and little or no taxes to pay. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector.
- RETAIL is not considered as industry – Lack of recognition as an industry hampers the availability of finance to the existing and new players. This affects growth and expansion plans.
- Rocket high prices real estate – Real estate prices in some cities in India are amongst the highest in the world. The lease or rent of property is one of the major areas of expenditure; a high lease rental reduces the profitability of a project.
- 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 from state to state (12.5% in Gujarat and 8% in Delhi). The problem is compounded by problems of clear titles to ownership, while at the same time land use conversion is time consuming and complex as is the legal process for settling of property disputes.
- Inadequate infrastructure - Poor roads and the lack of a cold chain infrastructure hampers the development of food and grocery retail in India. The existing supermarkets and foods retailers have to invest a substantial amount of money and time in building a cold chain network.
- Tough tax system – 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-pointoctroi 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.

- There is price war between different retail organizations. Each and every one is saying to provide goods at low cost and offers various promotional schemes. In such a case it is difficult to keep one's customers with oneself.
- 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.
- Poor supply chain management: Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down inventory cost, which can then be passed on to the consumer in the form of low pricing.
- Less retail space: Most of the retail outlets in India have outlets that are less than 500 square feet in area. This is very small by International Standards.
- Cultural difference : India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging.
- Human resource problems: Trained manpower shortage is a challenge facing the organized retail sector in India. 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.
- Scams in retail: It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.
- Infrastructure and logistics: The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced.
- Currency rate 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 uncertainty: 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.
- Difference Between Organized and Unorganized Retailing in India : India's unorganized sector competes with the organized sector in four main ways: Last mile delivery, Store locations, Consumer relationship building, and Credit based delivery.
- Geographical and Cultural Differences: The culture of India is an amalgamation of diverse sub-cultures spread all over the Indian subcontinent. And cultural differences, most often, become very important factor for retailers to address. For instance, cultural differences were
- Partly responsible for Wal-Mart's difficulties in Germany and South Korea. So, retailers need to address this issue well before they enter rural markets.
- Urban –Rural Inequality: The main occupation of the Indian rural population is agriculture and related occupations. And they draw their Livelihoods from crop cultivation, livestock, forestry or fishing etc. Whereas, the main livelihood drwan by urban population is mainly within the continuum of non-agricultural production or making/sellng goods or services. By understanding these differences, the retailers can decide a merchandise-mix that matches the needs of rural consumers
- International standards. This is where Indian companies and International brands have a huge role to play.
- Inefficient supply chain management: Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down

inventory cost, which can then be passed on to the consumer in the form of low pricing.

- Lack of Retail space: Most of the retail outlets in India have outlets that are less than 500 square feet in area. This is very small by International Standards.
- Cultural Diversity: India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging.
- Challenges with Infrastructure and Logistics: The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.
- Good interiors and exteriors – Organized retail stores put stress on proper infrastructure like well-maintained building, air conditioning, trained employees, electronic machine, parking facilities and proper display of goods category wise. Here customers feel comfort, joy and entertainment. Purchasing becomes joy for him. Self-selection saves time and gives more opportunities and satisfaction. Fix cost removes the threat of misleading. They avail various discounts and promotional schemes presented by the manufacturers. They also get product of different varieties and of proper quality.
- Retail generates employment - Retail marketing is one of the largest employments generating industry. It provides employment to skilled, semi-skilled as well as to unskilled persons. Thus it helps in the socio-economic development of the society.
- Battle in Price – Increase in the number of retail outlets increases competition among these retailers. To attract customers they give various promotional schemes as various discounts, buy one get one free, another product with any particular product, festival special, etc.
- Contract farming – The retail marketers directly purchase from farmers and reducing middlemen, thus provide proper cost to farmers and also set proper price for consumers. They also make contract with farmers to get proper amount of crops and vegetables.
- supply chain management - The big players of retail marketing and the manufacturing companies directly come in contact thus reducing many intermediary chains. Manufacturers also give many promotional schemes for their product that is beneficial for consumers.
- Foreign Direct Investment (FDI) Policy in Retail Sector: At present, India does not allow FDI in multi-brand retail. In the wholesale business, 100% FDI is allowed, whereas in single brand retail, 51% (Govt. considering to increase up to 100 per cent) overseas investment is permitted. But, after getting signals from Committee of Secretaries (CoS) early this year about allowing up to 51 per cent FDI in multi-brand retail, gives government a reason to find political consensus on the issue. If the government permits FDI in multi-brand retailing, it would have a lot of impact on inflation, supply chain, infrastructure etc. With FDI in retail, rural India can lead to improved farm practices and enhanced well being, whereas its introduction in urban India may confer only a few benefits.
- Growing Farm and Non-Farm Income: Rural growth far outstripped that in cities because of growing farm and non-farm incomes and government largesse in terms of loan waivers, guaranteed jobs and better support prices for crops. By 2015-2016, the rural

VI. OPPORTUNITIES OF ORGANISED RETAIL

Retail marketing gets various opportunities to grow up in the Indian market. Not only retailing but Manufacturers as well as suppliers, and buyers have various opportunities, some of which are mentioned below-

- New products in stores- Organized retail provides brands much needed visibility and platform for customer interaction. It also helps in launching of new product or product variant and in market penetration. It has wider product range and more frequent, speedier deliveries.
- Growing urbanization – Increased urbanization has shifted consumers to one place and thus a single retail can catch more customers.
- Small family size- As the time passed away joint families came in a new form i.e. nuclear family. Again the income level of these nuclear families increases because both members started earning. This results into increased power of purchase and lack of time. Now they want everything under one roof. This brought the concept of organized retailing.
- Credit cards – Increased use of credit cards is in favor of retail marketing. It creates requirement even when it is not necessary.

income from non-farm and farm activities is expected to be 68 per cent and 32 per cent respectively compared with 60 per cent and 40 per cent respectively in 2007-2008. Similarly, there is change in consumption of food and non-food articles among consumers in rural India. From financial year 1988 to 2010, the consumption of non-food articles have increased from 36 per cent to 46 per cent of total spend. During the same period, consumption of food articles has been reduced from 64 per cent to 54 per cent of the total spend.

VII. CONCLUSION

Organised retail in India has a lot growth opportunities and we can see that a lot many government policies are in favour of organised retail sector.

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