

A Study on Changing Rhythm of Retailing in India

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ABSTRACT: *This paper provides information about the growth of retailing industry in India. It examines the growing awareness and brand consciousness among people and focus on growth of retail sector in India, strategies, strength and opportunities of retail stores, retail format in India and recent trends. Growth of Retail Companies in India exhibits the boom in the retail industry in India over the years. The increases in the purchasing power of the Indian middle classes and the influx of the foreign investments have been encouraging in the Growth of Retail Companies in India. We examined whether corporate retailing has already harmed small retail businesses in India (and to what extent if so) and how much damage might occur in the future. We discuss how corporate retailing might benefit small retailers and consumers and consider how small and large retailers might coexist in a country where, in the next twenty years, 40% of the population and 70% of gross domestic product may be concentrated in urban areas. We consider problems that may arise if organized retailing grows and suggest ways in which such problems could be addressed by policymakers. Domestic and multinational corporations have begun to enter retailing in India, raising concerns that they will destroy the millions of small stores and street vendor businesses that presently dominate retailing in the country. Policymakers know that corporate retailers can improve the efficiency and productivity of retailing and distribution in India, but they are also concerned about possible harm to small businesses and loss of jobs among those who might not have the skills and training needed to find alternative employment.*

KEY WORDS: - *Organized retailing, Retailing, Retail growth,*

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I. INTRODUCTION

Whether FDI in multi-brand retailing is allowed in India will depend on several considerations. Joseph et al. (2008) observed that it is necessary to meet growing consumer demand and bring needed investment to the supply chain infrastructure. They reported that an expansion of corporate retailers has a limited, short-term effect on small stores. In addition, they suggest that new and better jobs in small-scale manufacturing, food processing, and distribution are likely to more than make up for any loss in jobs due to the growth of organized retailing. Still, a report by the Parliamentary Standing Committee on Commerce (2009) expressed reservations about the effects of organized retailing on jobs in informal retailing and about the potential for predatory pricing and monopolistic practices by corporate retailers. This paper examines key issues related to the development of organized retailing in India. Section 2 reviews the recent performance of India's retailing sector. Despite bold projections, it turns out that organized retailing has been only moderately successful. Large retailers have struggled for profitability while small retailers, including those selling food, have prospered and grown. Section 3 discusses possible reasons for the modest success of large retailers. Section 4 outlines short- and long-term prospects for retailing in India.

Types of retail businesses in India are commonly categorized as either formal or informal and as organized or unorganized. To understand the Indian retail climate, we must define these distinctions. According to the Ministry of Labor and Employment, the informal sector consists of unincorporated businesses that are owned and run by individuals or households. These businesses are not legally distinct from their owners, who raise capital at their own risk and have unlimited personal liability for debts and obligations. Informal businesses typically employ family members and casual labor without formal contracts. Formal businesses are corporations limited companies, and businesses run by or on behalf of cooperative societies and trusts. The organized sector comprises incorporated businesses. Information about this sector is available from company budgets and reports. Importantly, partnerships, private and limited companies, and businesses run by cooperative societies and trusts are not considered to be organized businesses in India. Instead, they are classified as part of the unorganized sector, which also includes all businesses in the informal sector.

II. OBJECTIVES

The retail companies are found to be rising in India at a remarkable speed with the years and this has brought a revolutionary change in the shopping attitude of the Indian customers. Objectives of the research paper are: -

1. To understand the growth of purchasing power and its impact on retail expenditure.
2. To study the retail industry in India and its growth pattern.
3. To understand the effect of globalization at different scales.

III. REVIEW OF ARTICLES

Retail employment grew at a slower rate than overall employment in India between 2005 and 2006. More recently, the two have grown at about the same rate because retail employment rates have risen and overall employment rates have fallen. Between 1999-2000 and 2004-05, employment in retailing grew by more than 30% in rural areas and by less than 3% in urban areas. Thus, the major growth in employment during this period was in rural areas. The Parliamentary Standing Committee on Commerce (2009) has noted that there is still no systematic, large-scale study examining how corporate retailing affects small stores. Limited evidence is provided by Joseph et al. (2008), who use the results of a survey to conclude that the entry of an organized retailer leads to the annual closure of about 1.7% small stores in its neighborhood. The authors note that by changing the mix of the merchandise and offering more services to consumers, small retailers were able to regain sales and profits that they initially lost when a corporate retailer entered their neighborhood. First, total retail sales increased by approximately 70% between 2004 and 2009, from \$294 billion to \$496 billion. Second, sales grew over this period by about 43% for retailers in the formal sector and about 97% for retailers in the informal sector. The annual average rate of sales growth was about 11% for all retailing, 7.5% for organized retailing, and 14.5% for informal retailing. Thus, from 2004 to 2009, retail sales grew almost twice as fast in the informal sector as in the formal sector and at a substantially faster rate than India's GDP, which grew at about 8.5% over the period. Third, in 2007, total retail sales in the informal sector surpassed those of the formal sector. By 2009, the informal sector held about 56% of retail sales, 8% higher than its 48% share in 2004. These data suggest that informal retailing is more than surviving; it is flourishing. At present growth rates, the gap between formal and informal retailing will continue to widen — family-owned stores and street vendors will take a larger share of retail sales. There may be several reasons why sales in formal unorganized retailing grew more slowly than organized retailing and informal retailing. First, it is likely that large corporate retailers compete most directly with other retailers in the formal sector and less directly with retailers in the informal sector. For example, hypermarkets and department stores might take disproportionately more sales from mass merchandise stores and specialty stores than from kirana stores and street vendors. Second, to take advantage of growth opportunities, some formal unorganized retailers might have incorporated and registered and now are reclassified as organized businesses. For example, a privately owned appliance store might grow into a store selling a full range of durable goods, which have seen substantial demand in the last five years. It might then be reclassified as an organized retailer after it develops into a larger organization and registers as a corporation. The factors for growth in Indian organized retail sector are many and that the reason behind its massive growth. But for this to continue both the Indian retailers and the government will have to work together. Growth of Retail Companies in India is still not yet in a matured stage with great potentials within this sector still to be explored. Apart from the retail company like Nilgiri's of Bangalore, most of the retail companies are sections of other industries that have stepped in the retail sector for a better business. The Growth of Retail Companies in India is most pronounced in the metro cities of India, however the smaller towns are also not lagging behind in this. The retail companies are not only targeting the four metros in India but also is considering the second graded upcoming cities like Ahmedabad, Baroda, Chandigarh, Coimbatore, Cochin, Ludhiana, Pune, Trivandrum, Simla, Gurgaon, and others. The South Indian zone have adopted the process of shopping in the supermarkets for their daily requirements and this has also been influencing other cities as well where many hypermarkets are coming up day to day.

The preceding discussion about the benefits of improving the distribution system would be worthwhile even if India was not expected to change in any significant way in the next twenty years. But the need for a more modern distribution system becomes urgent when we consider the ways in which the country is expected to change. The most significant changes from the perspective of retailing are (1) the magnitude of the expected increase in demand over the next twenty years, and (2) the rapid and ongoing urbanization of the country. Regarding long-term demand, if India's GDP grows at an average annual rate of even 7% per annum for the next twenty years, it will multiply by a factor of about four by 2030. If retailing accounts for even 30% of GDP, the increase in retail sales between 2010 and 2030 will exceed a trillion dollars. This is far too large to be accommodated entirely by unorganized retailers or to be left alone with no significant effort to improve the productivity and efficiency of the distribution and retailing system in India. According to census reports, the number of people living in Indian cities grew from 290 million in 2001 to 340 million in 2008. India has the second largest number of urban dwellers in the world. Furthermore, only 20% of the population increase in

cities is due to migration; the rest comes from the expansion of city boundaries or the reclassification of rural areas. From 2001 through 2008, India's urban population grew 58% faster than the population of the country as a whole. A study by the McKinsey Global Institute (2010) predicts that by the year 2030 India will have a population of 1.47 billion and 40% of the population will live in urban areas.

Strategies

India has a population density of 937 people per square mile. By contrast, China and the United States have population densities of 360 and 82 people per square mile, respectively. Japan, which has 873 people per square mile, is similar to India in terms of population density, and small stores have continued to prosper in Japan. The population densities of Indian cities, and of certain neighborhoods within cities, are remarkably higher than the population density of the country. For example, Delhi has a population density of 24,197 people per square mile (comparable to New York, which has 27,532 people per square mile); Seemapuri, the densest neighborhood in Delhi, has 76,342 people per square mile. But Delhi and Seemapuri pale in comparison with Mumbai and Dharavi. Mumbai has 57,000 people per square mile and Dharavi, its densest neighborhood, is eleven times as dense as the city and has about 600,000 residents per square mile.

High population density offers other advantages to small stores. Consumers tend to make smaller, more frequent purchases in denser areas because they have smaller homes and cannot stock up on necessities. Large stores in urban areas in India can seldom attract large numbers of distant consumers because only those with cars typically travel to a distant store. These customers are likely to make the trip to a large store infrequently because of the time and inconvenience of negotiating traffic and finding parking. In contrast, small retailers serve consumers within a small radius and, unlike closely located organized stores, take phone orders and can offer personalized services at low cost. For example, they can afford to make home deliveries because it is relatively inexpensive to send a delivery boy to ten homes that are close by. This is also why small stores can afford to make home deliveries in New York, where unskilled labor is far more expensive than it is in Indian cities.

Right Positioning - The effectiveness of the mall developer's communication of the offering to the target customers determines how well the mall gets positioned in their minds. At this stage, the communication has to be more of relative nature. This implies that the message conveyed to the target customers must be effective enough in differentiating the mall's offering from that of its competitors without even naming them. The message should also clearly convey to the target audience that the mall offers them exactly what they call the complete shopping-cum-entertainment point that meets all their expectations. The core purpose is to inform the target customers about the offering of the mall, persuade them to visit the mall and remind them about the mall. The mall developer can create awareness about the offering among the target customers in a number of ways. Various communication tools available to the mall developer for this purpose may include advertising, buzz marketing (WoM), and celebrity endorsement, use of print media, press releases and viral marketing.

Effective Visual Communication - Retailer has to give more emphasis on display visual merchandising, lighting, signage and specialized props. The visual communication strategy might be planned and also be brand positioned. Theme or lifestyle displays using stylized mannequins and props, which are based on a season or an event, are used to promote collections and have to change to keep touch with the trend.

Strong Supply Chain - Critical components of supply chain planning applications can help manufacturers meet retailers' service levels and maintain profit margins. Retailer has to develop innovative solution for managing the supply chain problems. Innovative solutions like performance management, frequent sales operation management, demand planning, inventory planning, production planning, lean systems and staff should help retailers to get advantage over competitors. Retailers benefit only if consumers perceive their store brands to have consistent and comparable quality and availability in relation to branded products. Retailer has to provide more assortments for private level brands to compete with supplier's brand. New product development, aggressive retail mix as well as everyday low pricing strategy can be the strategy to get edge over supplier's brand.

Growth Pattern

Analysis by the consulting firm Goldman Sachs (2009) suggests that household consumption declines as a share of GDP until per capita GDP rises to the \$1,500–\$2,000 range. Once per capita GDP exceeds that range, household consumption increases (see the panel on the left side of Figure 2). Figure 3 shows that the share of GDP due to household consumption has slowly increased over the last several decades in developed countries like France, Germany, the United Kingdom, the United States, and Japan, but has steadily decreased in countries like India, Brazil, and China. In particular, household consumption in India has steadily declined from about 80% of GDP in the early 1970s to about 55% of GDP in 2009. We might expect it to further decline in the near future and then to begin increasing once per capita GDP passes the noted range.

Path Ahead

The Indian government has allowed 51% foreign direct investment (FDI) in the India retail sector to one brand shops only. This has 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. The challenges facing the Indian organized retail sector are there but it will have to be dealt with and only then this sector can prosper. There is a need to limit the extent to which corporate retailers can obtain special privileges, such as access to desired locations to set up stores. Corporate retailers are making some of the largest and most expensive deals in metropolitan centers. However, there is no ceiling on the size or number of commercial outlets that may be started in a given commercial zone once they comply with some basic criteria of breadth of road. The central government has no control over this matter, and state governments have yet to devise policies related to these issues. Concern has also arisen about enforcement of existing regulations governing operation issues such as opening and closing hours. Some large stores remain open for ten or eleven hours a day, including Sundays.

As always, policymaking must be based on a balanced assessment of the present and future needs of different groups in society. In the short run, small retailing as a whole is not surviving but thriving, and large corporate retailers are finding it difficult to become profitable. In the long run, large corporate retailers can survive if they improve system wide efficiency and productivity in the distribution chain, something that the country needs and that can benefit small retailers as long as appropriate incentives and regulations are provided. The economic growth of rural areas will become a bigger concern, and policymakers should find ways to direct investments by corporate retailers to benefit the rural economy and citizens. There are several issues associated with potential misuse of power that will require careful consideration by policymakers to keep both consumer markets and distribution systems competitive and open. Lessons learned from developed markets should be used in formulating domestic policy in India.

IV. CONCLUSION

In summary, we expect three broad trends in retail sales. First, overall sales will grow at a slower rate than GDP. Second, food sales are presently the largest category across all retail products but are likely to grow at a slower rate than overall sales. Food retailing is likely to become more competitive and more efficient; retailers in the informal sector may continue to enjoy the advantages already noted. Third, retailing for durable goods, automobiles, restaurants, hotels, and recreation will grow faster than it will for food and basic commodities. These businesses require large investments and are likely to further increase the presence of organized retailing in India. As the panel on the left side of Figure 6 shows, retailers of durable goods have only modestly penetrated the Indian market and can be profitably expanded for some time. The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry. 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.

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