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THE SAGA OF INDIAN RETAIL AVALANCHE

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ABSTRACT

India is slowly emerging as the new hub for retail operators around the globe. However, the rules of the game are not yet clear. Prospective investors and the existing players are still unaware of the prospects of India retail market. This paper acts as an eye opener by detailing the saga of Indian retail and highlighting the avenues for profitable business. In this paper, exploratory research approach has been employed and extensive use of secondary data has been made for the purpose of analyzing the current state of Indian retail Industry and projecting the areas which have great future prospects. The aim of this research is to guide business managers in finding their way out through the retail maze in India. This paper contributes meaningfully to existing literature on Indian retail industry and provides vital information on the current state of Indian retail industry.

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INTRODUCTION

For millennia, India has been a shopper's Mecca. The ancient Greeks and Romans braved monsoon winds to reach the South Indian port. Today, India remains as tantalizing an opportunity as ever, enticing consumers and corporations alike as one of the world's hottest emerging retail and luxury-goods markets. Retailing has today become the new buzzword and a way of life for people in India. With 15 million retail outlets, the last twenty years have definitely been a dream run for modern retailers. From one store to multiple store, one format to multiple format, individuals to corporate, Indians to multinationals, rural to urban, banks to venture Capitalist, Industrialist to industrialists wives retailing had touched everybody's body, mind and soul. What started off as a trend has now transformed to be the need of the hour. The accelerated growth in the Indian economy, changing buying behavior of the customer, increase in disposable income of middle class, infrastructure development, increasing urbanization, credit availability, increasing investments in technology and real estate boom are all the reasons for the maturing of simple retailing into a more microscopic and systematized process. According to Kotler (1972), "Retailing includes all the activities involved in selling goods and services directly to the final customers". Retail the word originates from a French-Italian word "retailer" meaning someone who cuts off or shreds a small piece from something.

It includes activities of marketing and selling products or services to end consumers for their household or personal use. Retailer is a Person or Agent or Company or Organization who is instrumental in reaching the Goods or Merchandise or Services to the End User or Ultimate Consumer.

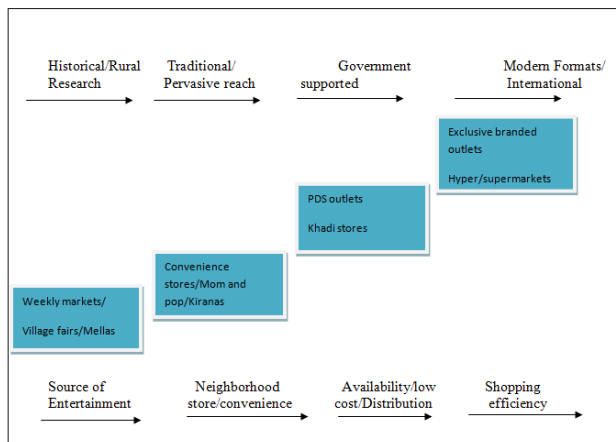
Review of Literature on Evolution of Retailing in India

Retailing is an occupation came into existence when farmers started producing more food than they required. Different people had different skill sets, and people who had a surplus of one kind of good desired the goods they did not have or could not produce (Pradhan, 2002). In India, it is observed that the existence of the current kirana format and other shops can be traced to the Manusmriti and Kautilya's Arthshastra. While, Kautilya commented on the location of stores dealing in specific products in a city; the Indian history and archeology records reveal the existence of markets during the Harappan civilization also. These were the early traces of retailing in India (Sengupta, 2008). India at the time of independence in 1947 was in the clutches of a vicious circle of poverty, characterized by very low per capita consumption and one of the lowest income levels in the world. Retailing was focused more on the basic necessities rather than luxury. In terms of retail institutions, it was mainly mom and pop stores (kirana stores) run by individuals and the wet markets, mandis, melas or bazaar. There were also government run public distribution shops as well as different co-operative stores. All these stores had counter-service and self-service was not a feasible option. Even in early 1960's it was reported that "there is no single

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supermarket in all of India” (Westfall and Boyd, 1960). However, the era of 1980’s saw magnanimous changes in the retailing sector. India saw springing up of independent retail stores which were never heard of before. Akbar alli’s, Viveks, Nalli’s, Raymond’s etc were the players in lead. Soon textile manufacturers like Reliance, Garden silks, Madhura garments, Arvind mills etc joined the bandwagon. This was in a sense the beginning of a new era of retailing in India (KPMG, 2008). The landmark years in the history of retailing were the 90’s, as it was in these years that the waves of liberalization and globalization established retail as a prominent sector in the Indian economy. Multi- brand retailers came into the picture and organized retail industry not just evolved but beautifully bloomed. Until 1990’s, the industry was dominated by the un-organized sector.

It was a market dominated by sellers with limited number of brands, and little choice available to customers. Lack of trained manpower, tax laws and government regulations all discouraged the growth of organized retailing in India during that period (Sharma, 2009). It has been reported that things soon changed and the winds started blowing in favor of the retail sector in the year 1995 and the millennium year saw the grand entry of supermarkets and hypermarkets (The Economic Times 2008). What was started by Kishore Biyani of the Pantaloon Retail in the late 90’s soon became the pathway for other players such as Reliance, Bharti, Birla TATA, HLL, ITC etc. Today, we also have popular foreign names in the retail market that have already set foot on the Indian soil. Wal-mart has joined hands with India’s Telecom heavy weight Bharti Enterprises and has taken the world by surprise. Other names worth mentioning are French retail giant Carrefour, UK-based Tesco, Gulf-based Emke Group and Dubai-based Landmark Group. With all these gigantic players setting their foothold on Indian retail ground, the future of Indian retail sector will experience a revolutionary change. Adding further glitz to the on-going retail revolution in India is the battalion of ‘On-line retailers’, who are rewriting the rules of the game.



Source: FDI Investment in Retail, 2004, ICICI

Figure 1.1. Evolution of Retailing in India

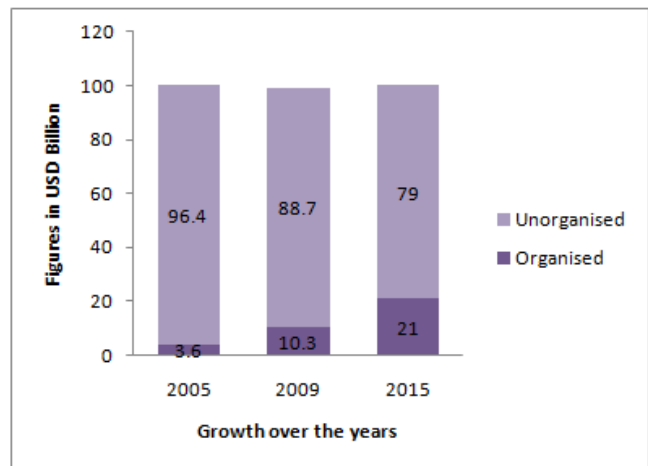
The governments initiative to allow FDI in multi-brand retail is also adding more sheen to the prospects for organized retail in India and has led to pushing Indian retail to an higher trajectory. The Indian Retail Industry today is the largest among all the service sector industries, accounting for over 10 per cent of the country’s GDP and around 8 per cent of the

employment. It is estimated to be US\$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 per cent or US\$ 6.4 billion (Berman and Evans 2007). The Indian retail market has been gaining strength, riding on the sound vibes generated by a robust economy that has given more disposable incomes in the hand of the consumer who will keep demanding for better products and services and a better shopping environment.

Thus, the evolution of retailing in India has been dynamic. From one store to multiple stores, from one format to multiple formats, from local melas to exclusive brand outlets, retailing has touched our lives. What was once considered as a source of entertainment has today become a way of life for an Indian, making life more comfortable and efficient. From the most historical format to the most modern ones, India has been a host to both Indian as well as foreign players (Figure 1.1). Topping AT Kearney’s Global retail Development Index for the third year in a row as the world’s most sought after retail destination, India is garnering 15 million retail outlets, earning itself the epithet “Nation of shopkeepers”. There is a little room for conflict as evidenced from the fact that India represents a unique case of consumption driven economy, where retailers and industry are yet to provide what the consumers demand.

Structure of Indian Retail Industry

The Indian retail market currently stands at USD 396 billion and is likely to grow further at 12% to increase to USD 574 billion by 2015. This sector is the second largest employer after agriculture, employing more than 35 million people with wholesale trade generating an additional employment to 5.50 million more. The growing disposable income in the country is resulting in increasing consumer spending habits.



Source: Indian retail market, 2011, Deloitte.

Figure 1.2. Share of Organized and Unorganized Retail in India

The characteristic features of both organized and unorganized retailers in India include:

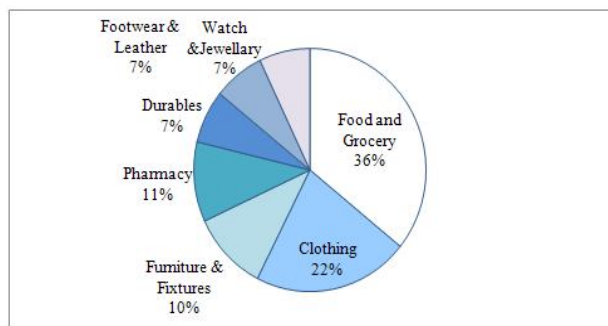
Unorganized retailers: Traditional or unorganized retail outlets are normally street markets, counter stores, kiosks and vendors, where the ownership and management rest with one person only. This sector accounts for two thirds of the market and requires low skilled labor. These are highly competitive outlets, with negligible rental costs, cheap labour and low

taxes and overheads. With competition increasing in the retail sector, these players are slowly transforming themselves into an organized set-up.

Organized retailers: Organized retailing comprises mainly of modern retailing within busy shopping malls, multi storied malls and huge complexes that offer a large variety of products in terms of quality, value for money and makes shopping a memorable experience.

The Indian Retail Market Segments

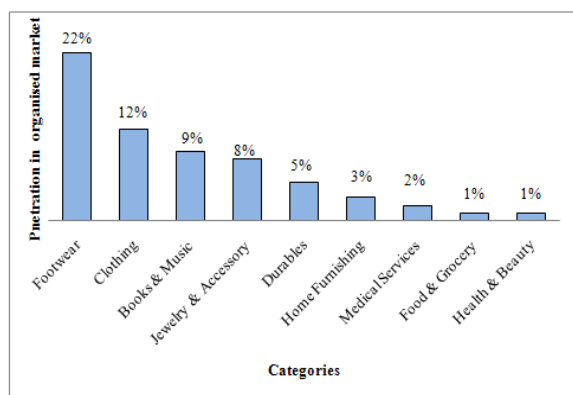
The Indian Organized retail sector, which is growing frenetically, is expected to continue at a blistering rate of approximately 35 per cent per annum till 2012. For India, food and grocery form the fastest growing category in the retail pie, accounting for close to 36 per cent (KPMG 2008) (Figure 1.3).



Source: KPMG Retail Survey

Figure 1.3. Fastest Growing Retail Segments in India

The food and grocery segment has the lowest organized retail penetration of 1 per cent, which is indicative of the greater opportunity available for organized retail and also explains why so many retailers have plans for this category in the pipeline (ERNST & YOUNG 2006) (Figure 1.4).



Source: E&Y, The Great Indian retail story, 2006

Figure 1.4. Organised Retail Penetration across Categories.

The analysis of India's retail scenario highlights that the organized retailing in India is all set to bloom. Among the various segments, food and grocery appear to be very promising for both the current players as well as investors. The low penetration in this segments adds to providing further scope for new players. The trends in the Indian retail market operations also reveal increasing investor interest and consumer demand for retail operators in food and grocery segment.

Significance of the Study

India is slowly emerging as the new hub for retail operators around the globe. Backed by increased purchasing power, changing lifestyles of the Indian consumer and government intentions to go in for FDI in retail, Indian retail is also set to scale newer heights. However, the rules of the game are not yet clear. Prospective investors and the existing players are still unaware of the prospects of India retail market. The paper acts as an eye opener by detailing the saga of Indian retail and highlighting the avenues for profitable business.

METHODOLOGY

This research is basically exploratory in nature. An extensive review of literature has been undertaken in order to assimilate the facts pertaining to current state in the India's Retail scenario. An attempt has been made to identify upcoming areas for retail investment and future trends in retailing. This paper is attempting to contribute meaning fully to existing literature on Indian retail industry and aims to guide business managers in finding their way out through the retail maze in India.

Findings

Indian retail has been changing its contours since the time of inception. From a simple activity of selling in small markets to a more sophisticated task of bidding on-line, retailing has showcased several successful forms and facets. India's capacity to embrace new formats is incredible and the customer's interest to shop at new avenues is insatiable. This clearly showcases the immense prospect for retailing in India and offers a promising future for ventures in India's retail business. A young nation with over 60 per cent of the population within the age of 35 years is pushing on the need for more retail activity in India. Increasing incomes coupled with desire for sophisticated lifestyle are generating business for modern retailers. The emerging Indian consumers are not just time pressed but also style starved. They crave to shop at ease, in style and at new avenues which has resulted in the emergence of new formats in retail that are trying hard to satisfy the insatiable. The roads to India's retail are getting even more attractive with the government initiating FDI in Indian retail sector. While some existing players have already made necessary preparation to combat competition, a few others are initiating talks with foreign players to make a joint entry into the Indian retail goldmine. In all, it can be seen that India's retail is all set to mount on a new journey towards excellence.

Conclusions

Retailing in India is growing at a frenzied pace. The relatively low rates of penetration of organized retail in most categories coupled with sheer attractiveness of India's demographic and economic environment is expected to continue to add momentum to overall prospects of this sector in the long term. So, for all those who are all ears to Indian retail the message is that Indian retail is here to stay.

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