

## Indian Retail Industry at cross road:

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### ABSTRACT:

*Indian retail sector is passing through different phases. In early 200 industry is at the begging phase so consumers welcome the industry. At present industry is passing through tough time as external factors are changing faster. Different format of retail industry come up and attract consumers. Role of government in such situation is also very vital and important. Due to demonetization as well as change in tax structure industry has faced slight down fall. In the present paper an attempt has been made to know the challenges faced by the sector. Retail industry is now in transforming phase with different sub parts like organised retailing, online retailing and conventional retailing. Sector evaluation is done with the help of secondary data only.*

**Key Words:** Retail industry, Industry Analysis, Organised Retailing.

### Introduction

Retailing is one of the important sector of Indian economy as it contribute around 10% of GDP of country having total economy size of us \$ 2.5 trillion. Retailing is one of the oldest business format or form which attract consumers since long period of time. IN current scenario conventional retailing is highly affected by various environmental factors like change in consumer preference taste and income, easy access to internet which leads to buy online from various portals. Indian conventional retail market is indirectly put a side by consumers as well as government together. Indian retail industry size is bigger in terms of number of outlets in the world. Indian having more than 6 lakh conventional stores which is higher than total number of stores USA and UK have. Envtough considerable amount of population get employment from such sector, absolute ignorance of the government for any policy to protect such sector can affect overall economy.

### Indian Retail Industry scenario

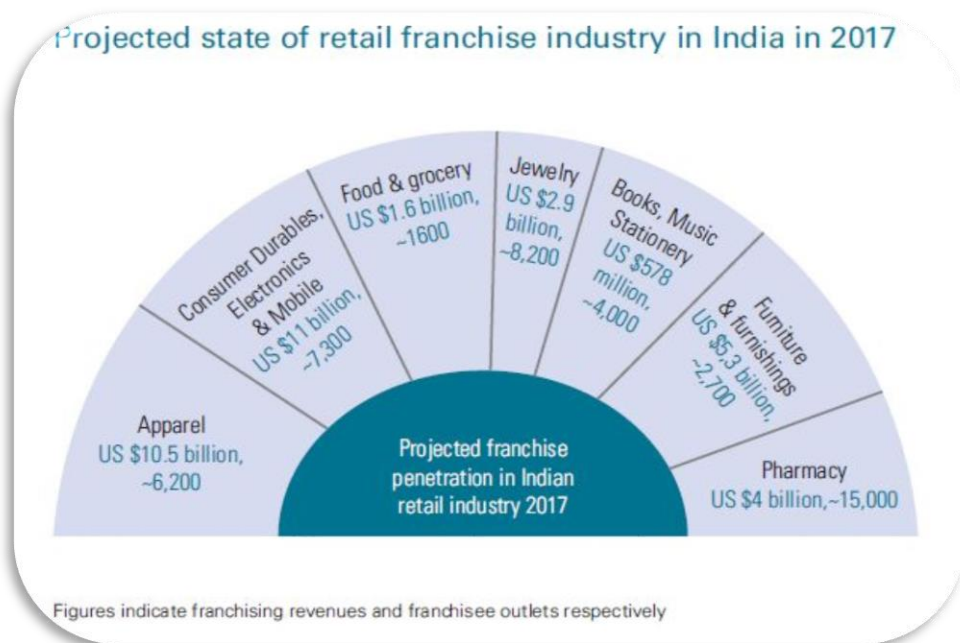
Indian retail industry is very lucrative and expected to grow in double digit. Indian population as well as Indian manufacturing sector indirectly work as blessing for the industry. Indian population is considered to be consumer for the and its constantly growing as well as its purchasing power is constantly increasing at increasing rate Inspite of unequal distribution of wealth and income.

Following are reasons for the development of the Indian retail sector.

- India's retail market is expected to increase by 60 per cent to reach US\$ 1.1 trillion by 2020, on the back of factors like rising incomes and lifestyle changes by middle class and increased digital connectivity. While the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent#. Indian retail market is divided into "Organised Retail Market" which is valued at \$60 billion which is only 9 per cent of the total sector and "Unorganised Retail Market constitutes the rest 91 per cent of the sector.
- India's Business to Business (B2B) e-commerce market is expected to reach US\$ 700 billion by 2020.## Online retail is expected to be at par with the physical stores in the next five years and has grown 23 per cent to \$17.8 billion in 2017.
- India's total potential of Business to Consumer (B2C) is estimated to be US\$ 26 billion, of which \$3 billion can be achieved in the next three years from 16 product categories, according to a study by Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Institute of Foreign Trade (IIFT).
- India has replaced China as the most promising markets for retail expansion, supported by expanding economy, coupled with booming consumption rates, urbanizing population and growing middle class.
- India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. Various agencies have high expectations about growth of Indian e-commerce markets. Indian e-commerce sales are expected to reach US\$ 120 billion! by 2020 from US\$ 30 billion in FY2016.Further
- India's e-commerce market is expected to reach US\$ 220 billion in terms of gross merchandise value (GMV) and 530 million shoppers by 2025, led by faster speeds on reliable telecom networks, faster adoption of online services and better variety as well as convenience@.
- India's direct selling industry is expected to reach Rs 159.3 billion (US\$ 2.5 billion) by 2021, if provided with a conducive environment through reforms and regulation.
- Indian exports of locally made retail and lifestyle products grew at a CAGR of 10 per cent from 2013 to 2016.
- India is expected to become the world's third-largest consumer economy, reaching US\$ 400 billion in consumption by 2025.
- Luxury market of India is expected to grow to US\$ 30 billion by the end of 2018 from US\$ 23.8 billion 2017 supported by growing exposure of international brands amongst Indian youth and higher purchasing power of the upper class in tier 2 and 3 cities, according to Assocham.
- The size of modern retail in India is expected to double to Rs 171,800 crore (US\$ 25.7 billion) from Rs 87,100 crore (US\$ 13 billion) in three years driven by Omni-channel retail.

- Indian companies are come with the IPO for the retail sector which is good sign of confidence of investor in the sector.

Foreign brands are also ready for the entr in the market. Even foreign brands have started adopting option of frenchise. Indian lucrative market cant be ignored by any brand. Folowing is an estimation made by Business India as business potential in india in different sector.



Source: <https://www.relakhs.com/set-up-franchise-business-in-india/>

## Importance or Advantages of Indian Retail Industry

- The Indian retail industry is one of the fastest growing in the world. Retail industry in India is expected to grow to US\$ 1,100 trillion by 2020 from US\$ 672 billion in 2017.
- India is the fifth largest preferred retail destination globally. The country is among the highest in the world in terms of per capita retail store availability. India's retail sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. Healthy economic growth, changing demographic profile, increasing disposable incomes, urbanisation, changing consumer tastes and preferences are the other factors driving growth in the organised retail market in India.
- India's population is taking to online retail in a big way. The online retail market is expected to grow from US\$ 17.8 billion to US\$ 60 billion between 2017 and 2020. It is forecasted to grow at a CAGR of over 30 per cent from 2016 to 2021, on the back of shift from traditional retail to online channels by millennials. Organised retail penetration is expected to increase from 7 per cent in FY 2016-

17 to 10 per cent in 2020. India is expected to become the world's third-largest consumer economy, reaching US\$ 400 billion in consumption by 2025. ^

- Increasing participation from foreign and private players has given a boost to Indian retail industry. India's price competitiveness attracts large retail players to use it as a sourcing base. Global retailers such as Walmart, GAP, Tesco and JC Penney are increasing their sourcing from India and are moving from third-party buying offices to establishing their own wholly-owned/wholly-managed sourcing and buying offices.
- The Government of India has introduced reforms to attract Foreign Direct Investment (FDI) in retail industry. The government has approved 51 per cent FDI in multi-brand retail and 100 per cent in single brand retail under the automatic route which is expected to give a boost to ease of doing business and Make in India, and plans to allow 100 per cent FDI in e-commerce. India will become a favourable market for fashion retailers on the back of a large young adult consumer base, increasing disposable incomes and relaxed FDI norms.

### Story of Indian Consumer in 2017

Indian consumer's consumption patten gives an idea that Indian retail industry will grow to great extent. Following indicators can give more precise idea for such.

- Gen Z (born after 2000). The sheer size of India's youth combined with improved education pave the way for sustained growth in purchasing power and makes India's consumer story one of the world's most compelling for the next 20 years. The nation's challenge is to create enough jobs to unleash the productivity of India's talented youth.
- In the coming decade, India's consumer story will be led by its 129mn Urban Mass consumers. This marks a different path from China, which was predominantly an Urban Middle formation story during 2002-2012.
- India's Urban Middle cohort is relatively small. We estimate that the workforce that falls into the Urban Middle (over US\$11,000 annual income) stands at 27mn, or 2% of population.
- Brand investing will be a big theme in everything. But we note: India's Urban Mass will trade up into brands that offer the most incremental value and quality, but may not readily jump to aspirational brands. In purchasing a car for example, for an Indian consumer, an important input is the brand's reputation for fuel efficiency.
- Best categories positioned for profit pool expansion: packaged snacks, baby products, premium personal care, scooters, SUVs and jewellery. But one profit pool may grow faster than them all: restaurants.
- Where India will leapfrog the most: Mobile connectivity and Ecommerce. Payment system and supply chain challenges remain but are not insurmountable. Improved mobile connectivity will also challenge the domination of TV as a

primary source of household entertainment over time, creating a bigger profit pool for content providers and mobile gaming.

- Growth of luxury and high end in general will be limited. Culturally, India's affluent consumers tend to shy away from ostentatious display of wealth. One area where Indians do splurge: weddings. The number of weddings and household formations will increase over the next 5 years, given India's demographics (peak birth numbers reached 22-23 yrs. ago).

## Research methodology

1. To know the present position of Indian Retail Industry
2. To know challenges of Indian Retail industry

## Research Design

As it is evaluation of retail industry it is descriptive in nature

## Type of Data:

We have used all secondary data for the research work. Various reports published by different government and non-government agencies

## Scope of Research:

We have taken into account conventional retailing (small traders or kirana stores) Modern Retailing (Big stores or semi wholesaler), Organised Retailers (Super Markets and Hyper Markets) as well as "on line retailers".

## Challenges of Indian Retail Industry:

Indian retail industry is passing through long transformation stage. As a matter of fact organised retailing starts gaining or accelerating growth in selected place in early 2000. However in the mean time entry of the international player Amazon in the category of online retailing had changes the scenario of consumer preference in the country. Similarly Indian competitor in online market-flipkart and fashion online retailer-myntra had come up with their separate indianised weapons and creates more competitive market. In all these small unorganised retailer also makes necessary changes in its marketing mix and create better relationship with the customer. This is one of the attempt of the small retailers to maintain consumers.

However at present Indian retail industry is facing following problems to great extent.

### 1 No Industry Status

- The Indian retail sector suffers from one basic problem: Technically speaking, it is not an industry. In spite of being one of the largest employers in India, the Indian retailing sector hasn't been recognized as an industry by the government. Some problems regarding this is as follows.

- *Absence of a single nodal Agency:* Retailing does not come under the purview of any specific ministry. Retailing policy is currently in a state of chaos. The finance, trade, industry and commerce ministries randomly regulate retailing on a random basis. There is no single body responsible for this industry. As a result, the growth of this industry has been severely affected.
- No importance in the present industrial policy at all.
- *Operational hurdles:* The Indian retailer faces operational hurdles at four levels: The Central, state and municipal governments and the financial institutions. The government factor plays a big role considering the fact that every government body has its own sort of clearances, and given the level or efficiency that we have in government bodies in India, the delay involved in procuring these licenses translates into huge operational and opportunity cost for retailers.

Benefits to Retail sector due to industry status

- Greater focus on retailing development.
- Facilitating Fiscal incentives for retailing.
- Availability of organized financing.
- Establishment of insurance norms.
- Lack of ease of business

## 2 Gaps in the Retail Sector

A major gap in Indian industry is its fragmented structure with a dominance of small scale. Even though the government policies that created this distortion have gradually been removed, their impact will still be felt for some time.

- One of the greatest implications is that since most of the companies are small, there are very few clear examples of leadership and reference points that can be aspirational or inspirational for the rest of the industry.

The ones THAT are - Arvind Mills, Reliance or Raymond - far exceed die scale of most of die industry players, and do not provide a clear “roadmap to growth” for the rest of the industry.

Gaps in the Retail Sector

- Fragmented
- Dominance of small scale
- Few examples of leadership
- Low productivity
- Lack of integration in supply chain.

- Small scale also brings with it the problem of productivity. – Various authors and researchers have placed the current productivity of Indian factories at half to one-third of levels that might otherwise be achievable.

Smaller companies often do not have the resources to invest in appropriate technology or retraining, or in the re-engineering of processes. While skilled Indian labour is inexpensive in absolute terms, due to lower productivity levels, much of this advantage is lost by small firms.

- Fragmentation of the supply base also creates barriers to achieving true integration between the various links in the supply chain. This creates issues of lack of control and lack of consistent or reliable performance.
- The huge geographical spread further complicates this.

### **3 Limitations Due to Land and Property Laws**

There is a shortage of good quality retail space and rents are high for what is available. Compounding these shortages are the following problems-

- One of the drivers of property prices is the high demand for space in the cities. This demand is exacerbated by the flow of black money (undeclared for tax purpose) that is generally invested in the property sector.
- Only Indians can own property in India, which complements the restrictions placed on FDI and restrict the entry of foreign players.
- Stamp duties on property deals are significant (12.5% in Gujarat and 8% in Delhi). The lease alone can cost up to 6-10% of sales while it's just 3-5% globally.
- The initial urban planning of cities was done with smaller plots in mind which along with rigid building and zoning laws makes it difficult for procurement of retail space.
- The urban land ceiling act and rent control acts have distorted property markets in cities, leading to exceptionally high property prices.
- The presence of strong pro-tenancy laws makes it difficult to evict tenants and make people reluctant to give real estate on rent. The problem is compounded by problems of lack of clarity over titles to ownership.
- Land use conversion is time consuming and complex.
- Time consuming legal process for property disputes.
- City urban planning projected smaller commercial plots and this, together with rigid building and zoning laws make it difficult for procurement of retail space.

### **4 Limitations Due To Stringent Labour Laws**

Existing labour laws in India forbid employment of staff on contractual basis which makes it difficult to manage employee schedules especially the 365-day operations. The labour laws instituted to protect store workers are not flexible enough to support

the modern formats of retailing. These rigidities in die law constrain die operations of modern retail outlets. Working hours are restricted, with shops required to close one day of the week, while die hiring of part-time employees is difficult towards labour reform and it is hoped that this will make the business environment even more conducive. For Eg: In Bengaluru, the State Government has permitted flexibility in the use of labour without doing away with the associated benefits accruing to it.

## 5 Other Regulatory Disadvantages

- *The historical reservation of manufacturing:* Among the other regulatory disadvantages, one of the most insidious is the historical reservation of manufacturing for very small companies. While die original political intention might have been to spread self-reliant industry across a large population base, this reservation has created the fragmentation that shackled the competitiveness of Indian industry.
- Most of the sectors have now been de-reserved, and entrepreneurs and corporates are investing significant sums of money in setting up new, large factories, or expanding their existing manufacturing plants.
- *Lack of FDI:* Secondly, the government has, in the past, also kept foreign investment out of textile and apparel manufacturing. It has gradually removed these restrictions, and has also brought down import duties on capital equipment, creating grounds for foreign investors to set up manufacturing plants competitively in India. In recent years, when India has started becoming a global manufacturing base for products such as cars (Ford, Hyundai) and fast-moving consumer goods- FMCG (Unilever), it can certainly provide a competitive base for textiles and apparel companies to invest in.
- Tax imbalances: Some other problems remain, such as excise and other tax imbalances. The political diversity of India's 35 states and Union Territories, and a coalition of ruling parties have led to slow progress in rationalizing these imbalances due to debate and discussion. However, a VAT framework is being put in place, though in fits and starts, which will clear these imbalances once it is implemented fully, and create a truly unified economic space.

## 6 Lack of Basic & Secondary Infrastructure

Most of the existing retail outlets are modification of properties meant for various commercial purposes. Renovation cost thus for a substantial cost of the initial setup costs. Logistics and supply chain management are crucial to retail functioning. In die absence of logistics companies in India these have to be developed in house by retailers, which add to costs apart from being set up on experimental basis, as no set-working format exists.

## 7 Non Availability of Quality Real Estate:

At Prime Locations the retail boom currently being witnessed in India is likely to have a significant impact on the commercial real estate sector. Presently, most major Indian cities have sizeable retail construction projects underway. In the past, real estate costs



have been high in India. However, the scales of supply and demand have recently tipped in favour of a rationalization of property prices across the country.

In most cities it is difficult to find suitable properties in central and downtown locations for large format retail stores. This is primarily because private holdings are fragmented and the auctioning of large government owned vacant plots is rare. This has led to a shift towards the suburbs of metropolitan cities. There has been a spurt of shopping malls in these areas, such as Gurgaon and Noida near Delhi and Bandra Kurla Complex, Navi Mumbai near Mumbai and S.G.Highway near Ahmedabad. While most Indian players have ready and easy access to prime real estate locations, foreign companies have to depend upon shopping malls and rentals for their outlets.

## **8 Poor Distribution Network**

The Indian market is dominated by over 12-15m small “mom and pop” retail outlets, of which about 65% are in rural areas. Accessing these outlets is one of the biggest challenges facing the CPG companies who need to either set up their own extensive distribution networks or enter into strategic alliances.

## **9 Supply chain issues**

In India, both vendor management and logistics management are still underdeveloped. However, with growing size of operations, supply chain efficiencies will become a key differentiator of profitability in retail. Supply Chain Management (SCM) efficiencies are essential to retailers to maintain and improve margins. SCM includes vendor management and logistics management. Vendor selection is an important outcome of the sourcing process and a key to most efficient sourcing. Logistics management aims to get the goods from the vendor to the store in the shortest possible time thereby avoiding unnecessary stocking of goods. Similarly, supply chain tools and techniques are still developing in India with the increase in organized retailing and entry of international brands. Barcoding is now being implemented, driven by the retailers for whom it is an essential ingredient for supply chain management.

## **10 Economics of trade**

Another constraint concerns economics of the trade. Low margins to the organized players: Organized retail in India is largely a proposition of poor economies of scale. As in any other industry, the unorganized sector has low operation costs and therefore offers cheaper product to consumers. This forces modern retail formats to operate at abysmally low margins. While retail margins in the FMCG sector in India ranges between 10-12%, the same margins abroad are in the region of 25-30%. Emerging-Manufacturer supplier relationships to decrease cost:

Some of the leading chains have succeeded to a degree in convincing consumers that their quality products come at equal, if not lower, prices. It has largely to do with efficiencies achieved in supply chain management. Such stores have done away with intermediaries in the supply chain. It is a direct manufacturer-to-retailer relationship where the sheer popularity of stores and their capacity for effecting bulk purchases gives the retailer an upper hand.

### Use of IT to decrease cost in the long run:

Also, advanced IT tools have contributed towards better logistics and inventory management at lower operational costs. Value-additions are provided through measures like privileged customer cards and promotions across brands/counters which may be in the form of freebies or direct discounts. Service value add-ons such as valet-parking/ replacement policy/ cafe, etc., also provide extra value to the consumers. Retail biggies are powering ahead this way despite policy problems.

### **11 Non Availability of Skilled Manpower**

The non-availability of trained manpower, especially at the management level, poses a key risk for the retail sector. With growing opportunities in the emerging service sectors, the ability of the retail business to hire and retain quality people is under pressure. Further, as organized retail grows rapidly, there will be pressure on existing players as new entrants look for trained manpower at various levels. Opening up of FDI in retail could see the entry of international retail majors and put further pressure on the manpower of existing retailers.

### **12 Differentiation and Reach**

Too many department stores, too many exclusive outlets all too close to each other. There's hardly enough differentiation and this could make it hard to build store loyalty. Besides, customers don't want to travel more than 20 minutes to visit a store. So, building higher levels of traffic when catchments are shrinking is a tough challenge.

### **13 Differences Between Urban-Rural Consumers**

The rural Indian consumer is economically, socially and psychographically very different from his urban counterpart. Urban growth in the CPG sector is spread over a diverse basket of goods like low priced mobiles, cheap financed consumer goods and new entertainment options. Rural spending and demand is fuelled by good monsoons resulting in disposable income that is spent on medicines, fertilizers and interest repayments.

Cultural preferences and tastes that differ from the "global economy" given the strong and diverse cultures in India, multinational firms have to develop and customize products specifically for the Indian market. For instance, Domino's has introduced pizzas with Indian cuisine toppings, and over one third of its revenues are attributed to such additions.

### **14 Growth in Non-Metros**

Most retailers concentrate on the top eight metros. That's because the market in metros is ready for organized retail and a premium pricing strategy is easier to adopt. But the question to be asked is that does that leave enough room for growth. Already malls are coming up in small cities like Indore, Vadodara, Ludhiana, Chandigarh, Surat, Meerut & Rajkot.

### **15 Disadvantages of India as A Country**

Finally, there are certain macro-level disadvantages that India faces as a country.

- For one, it has a global logistics disadvantage due to its geographic location. Unlike its competitors Mexico (for the US), Turkey (for the EU), and China (for Japan and the US West Coast), India is distant from all the major markets. Therefore, the cost of shipping is high and shipping time adds to the disadvantage. Cost of shipping is also affected by the fact that inbound freight traffic has been low - therefore, container movement is not at its most cost-efficient. This is changing as India imports more products and inbound freight traffic increases.
- India also lacks any serious trade pact memberships, and therefore does not receive preferential access to the major markets. This leads to quota and duty disadvantages, which depress the sourcing volumes from India far below their potential.

### **Suggestions for betterment of Indian Retail Industry:**

- Systaltic finance facility for the retailers either organised or unorganised one need to be developed and implement.
- Finance facility through different agencies and sanctioning at different level needs to be designed for better growth of industry.
- Looking to the number of people get employment from the retail sector one should develop separate Organisaition who can train people for the sector only and make value added service delivery to the consumer.
- Distribution network of the different consumer durables and fast moving consumer goods is bit difficult and costly for the marketers. Dedicated corridor in the tier two cities and semi urban areas is necessary.
- Special tax holiday need to be declared for the retailers who are entering in the market newly.
- Special tax benefit to the organised retailers who open their outlet in the tier two and tier three cities.
- Tie-up with petrol pumps for providing land for the retailers to open outlet on highway can generate employment as well gives growth to the industry also.
- Consistency in policy of foreign direct investment in the sector is necessary at this stage.
- Straight and simple registration of the new retail store can be treated as action towards ease of doing business.

### **Conclusion:**

Indian government needs to be more serious and conscious towards Indian retail industry. Just allowing FDI to certain extent in the sector will not serve purpose. Appropriate environment for the development of the industry needs to be created. It is duty of the government. Indian retail industry is contributing to GDP by one tent of its size

and giving opportunity to earn to more then 7 million people directly. Majority of FMCG companies of the world earn massive profit from Indian market through such retailing. If concrete steps are not taken then such industry can't get desired pace in the development.

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