Chapter 1: INTRODUCTION

1.0 Introduction:

In this chapter, a brief background of the study is given. Also the significance of the study, the scope and methodology are described. Finally, the chapter scheme is provided.

1.1 Background:

Retailing in India has been achieving a noticeable growth in the organized sector since the liberalization of our country’s economy that began in the early nineties. The retail market in India is said to be fragmented with only around 5% of the sector organized, which means that only 5% of the retailers are registered under the regulations and licenses. The remaining part of the sector is unorganized. It is hence viewed as a big opportunity for the future for the organized retail firms to evolve and grow in India. In the last score of years, while many new retail firms like Shoppers Stop and Pantaloons have been formed, a few traditional formats of retailing in India like RPG’s Spencer’s have undergone transformation. A few organizations, which have had their strongholds in manufacturing or wholesaling, have ventured into retailing. For example, Madura Garments and Arvind Mills have got into the retail business from their core businesses of manufacturing and wholesaling. In the last five years Indian retailing has seen major players like Reliance, AV Birla, Tata, ITC and others venturing into retailing, opening their retail stores across the country. The apparel retail sector seems to be the first to evolve in India with the advent of many organizations like Shoppers Stop, Raymond and firms in the South with specialty retail formats, like Nallis, RmKV, etc. There seem to be a few key drivers of the growth of the retail business in India and a few factors that have perhaps been influencing its rapid growth. The total size of the retail market currently as estimated by various reports may be in the region of USD 400 billion currently in 2009.

Growth in organized retailing in India has been said to be fuelled by various factors – social and consumer factors like social cultures being transformed by the influence of
the Western world largely, increase in consumer awareness levels, the increase in the number of middle-class families, economic factors like the increase in the disposable income to spend, environmental factors like the development of infrastructure facilities not only in metros but in the tier two and three cities and towns and a host of other factors like the exposure to latest technologies to do business, development of communication network, etc.

1.1.1 The Changing Organized Retail Scenario in India:

The historical evolution of retailing in India is as old as Indian civilization. Indian caste system is testimony to the evolution of retailing business in India and emergence of the caste of ‘baniya’ (tradesman) community. Many large organized retailing formats have evolved in India as we have witnessed the setting up of stores like Shoppers Stop, Food World, Giant, Lifestyle, Pantaloons, Big Bazaar, Westside, Star India Bazaar and Globus. We have also experienced the growth of malls like Forum, Sahara, Crossroads, Central malls, Nirmal Lifestyles, Spencer Plaza, etc., in the last decade. It is understood that the modernization of Indian retailing is currently at a critical stage and it is fast evolving in metropolitan cities but the bulk of the retail sales happen through traditional retail formats (Mulky and Nargundkar, 2003). It is felt worthwhile to study how organized retail formats have been evolving and what factors have been responsible for such growth of organized apparel retailing in India.

1.1.2 Various Consumer Segments in India:

India being a unique country with diverse customer preferences and tastes, there may not be just one game plan that may work as a formula for success in retailing. It is a country of people living in different states with different lifestyles with varied disposable incomes. More than 300 million people are said to be in the burgeoning middle class segment with a good deal of disposable income to spend and this is said to trigger the internal consumption trend in India, which insulates the country’s economy from being affected by any global down-turn. More than seventy percent of India’s population is said to live in the rural areas and Indian retailers may have to get ready to expand into such markets when they spread over pan India. In spite of the
recent global recession, these rural markets in India are said to have shown no
difference in their consumption patterns and specific customer-orientation towards
them may fuel the growth of retailing in India. Cultures have been transformed in
these markets to the extent of changing from using made-to-order attire to wearing
ready-to-wear garments. Such transformation, ably aided by the development of
telecom and media communication network in these markets, have perhaps been
giving the strength for firms to move closer to them by opening retail outlets in rural
markets.

Retail Development Index

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<th>Consumer affluence</th>
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Source: AT Kearney

Table 1.1

1.1.3 The Growth Facets of the Indian Apparel Retail Sector:

India is said to have become the third most attractive destination market for apparel
retailers, according to a report on Emerging Opportunities for Global Retailers (2008)
by AT Kearney, a global management consulting firm. Apparel is said to be the
largest organised retail category, accounting for 39 per cent of the organised retail
market in India. The report says that the sector is growing at the rate of 12 to 15 per cent annually.

International brands such as Levis, Benetton, Esprit, Mango, Hugo Boss, Marks and Spencer, Tommy Hilfiger, Debenhams, Zara are already there in India along with a plethora of Indian brands like Globus, Provogue, Spykar, Killer, Gini Jony, Pepe India, Classic Polo, Indian Terrain, Genesis, etc. The increase in demand for apparel has spurred these brands to percolate into tier two markets as well. The capabilities in manufacturing and logistics have increased thanks to India being a key market for outsourcing production of garments by global players like JC Penney, Walmart, etc. and with the development of infrastructure and with the deployment of viable retail models across India, apparel retail is expected to continue to be the largest category in the organized retail sector in the coming decade as well. It may therefore be relevant to study the organizational and external factors that may impact the evolution and growth of apparel retail firms in India.

1.2 Need for the Study:

The importance of organized apparel retailing in India could be better understood if one could look into the factors that may contribute to the growth of organized retailing in India. It is proposed to analyze the evolution of organized retailing in India as a whole with a historical as well as taxonomical perspective. Indian retailing, which originated as a source of entertainment has passed through the passage of retailing revolution as a cost control phenomenon to uniform distribution phenomenon and finally to the current genre of practice of building shopping experience. Many reports have carried the news of the many influencing factors that have been said to have impacted the growth of apparel retailing in India, but the real interest lies in knowing first-hand by research what such influencing factors could really be.

The evolution of India has a distinct history of transformation from traditional formats to modern formats. Apparel retailing especially has traversed its growth path
beginning from smaller formats to large department stores. The motivation is to find out what are the format strategies that could impact the evolution and growth of apparel retail firms in India.

The retail development that happened in developed economies like the USA and UK two decades ago is currently perhaps happening in India with respect to organized retailing. Retailing evolved on a large scale in the Western economies, with the development of central business districts, large formats like department stores, malls and so on. The motivation is to study the development of retailing in these economies and compare those influencing factors and strategies to find out whether retailing in India too is following similar trends or patterns.

The future may see many retail formats evolving in customer-centric markets and the deployment of chosen operating and financial strategies may cause the growth of retail firms in India. An in-depth study of a sample organization in India also may help identify and understand the factors responsible for such growth. The results may in turn help apparel retail firms in their expansion or may help new firms establish their stores and hence the need for the study.

1.3 Significance of the Study:

Retailing is the last mile of business activities involved in the distribution channel of goods and services through a first-hand transaction with the customers. Retailing is defined to include all the activities involved in selling goods or services directly to final consumers for their personal use (Kotler and Keller, 2006). It is the final link in a product supply chain. Organized retailing offers a variety of stock keeping units (SKU), often in a self-service format while offering an experiential touch to the consumer. The evolution of organized retailing in India has its unique characteristics. The landscape of Indian organized retailing is evolving from the plethora of retailing activities that India has been having for long or since time immemorial. The growth of global retailing has been relentless over the past two decades. The rise of global retailers has led to a remarkable shift in power from suppliers to retailers (Kumar,
Nirmalya 2005). Globally, retailing has seen a sea change and especially in developed countries retailing has evolved giving rise to the development of many formats in retailing along with the development of various functional processes that support retail operations such as technology in retail, people and related processes in an organized manner.

The growth of such organized retailing and its evolution in India could have many ramifications for apparel retailing in India, which is the scope of the study – benefits for customers and threat for the millions of unorganized retailers who have small stores to earn their livelihood. In addition, while on the one hand organized players have entered into the business of retailing, there are many medium sized retailers who are waiting to become organized in India. It is relevant to study the evolution of organized apparel retailing especially in the developed economies and in developing economies which are similar to India besides studying India’s own organized apparel retail growth. Such a study will help find patterns that may impact the future growth of retailing which may be consequential in decision-making for the many growing apparel retail organizations and for those intending to expand in India or make a foray into apparel retailing in India.

1.4 Scope of the Study:

The present study is an attempt to analyse the evolution of retailing in India. The study is confined to the apparel sector of organized retailing in India. The apparel retail sector in India being the frontrunner in the evolution of organized retailing in India, an enormous amount of interest has arisen to study its evolution and growth. Although it would be interesting to study the other sectors of retailing as well, it would be too unwieldy to cover such vast categories in terms of time, resources, logistics and data gathering.

The period covered is since the early 1990s, i.e., the post liberalization period.
1.5 Methodology and Data Sources:

The study is basically an empirical one based on data gathered from apparel industry in both India and abroad. A sample of 45 apparel retail firms have been chosen for the purpose and primary data gathered using questionnaire method administered by mail and in person. The study pertains to the post-liberalization period, i.e., from early 1990s onwards. Out of the 45 sample units, 30 are from India. The criteria for sample selection was based on the following criteria: Apparel retail firms having a) annual turnover of more than USD 10 million (INR 50 Crores) per annum, b) more than 25,000 square feet of retailing space, c) more than 5 stores, thus qualifying to be a retail chain, d) more than 100 employees, e) privately owned or public limited but registered under the Companies Act in India. For the samples drawn from abroad they should be appropriately registered or incorporated as a company. Of the total 65 firms fulfilling these criteria in India, 8 of them did not show any interest in the study and the remaining were inaccessible.

Data analysis has been conducted using statistical techniques such as Chi square, T-test, ANOVA, Kolmogorov Smirnov test (KS-test), Garrett’s ranking table, etc. as applicable.

This is then supplemented by a case study of an apparel retail firm.

1.6 Objectives of the Study:

The study aims to explore the patterns and trends of apparel retail evolution in India. An attempt is made to study in depth the factors influencing the evolution and growth of apparel retail firms in India. Such factors include both external factors and organizational factors. The study attempts to find the similarities and differences in the evolution and growth of apparel retail firms in India and those firms abroad and study if apparel retailing in India is dependent upon any factors that have impacted the evolution and growth of firms abroad through a comparative analysis.

The broad objectives of the study are to study the evolutionary patterns and trends of apparel retailing in India, to study the strategies adopted by the apparel retail firms in
India and abroad and make a comparative analysis to understand the commonalities and differences and to identify the regional and geographic influences governing the apparel retail evolution and growth in India. The objectives of the study, however, are listed in the chapter on Methodology.

1.7 Chapter Scheme of the Study:
This thesis is organized into seven chapters. The first chapter provides an introduction to the study, which includes the background, need for the study, significance of the study, scope of the study, methodology, objectives of the study and the chapter scheme. The second chapter provides a critical review of the literature. The third chapter explains the methodology, which includes hypotheses, data sources and tools and techniques used. The fourth chapter covers the results and related discussions that include three key sections, viz. Factors influencing organized apparel retail evolution in India, Comparative analysis and Growth implementation strategy: A Case study. The fifth chapter dwells on the summary and conclusions of the study. The sixth chapter contains the bibliography and the seventh chapter comprises the appendices.