other sectors have been elucidated in this for having a holistic picture of its increasing acceptance all over the world.

A review of the literature on the research topic has been discussed in Chapter IV, while the research methodology is presented in the fifth chapter. Chapter VI deals with the analysis of the survey data and the discussions of the case studies.

Chapter VII offers a summary of the work along with the major findings and recommendations.

CHAPTER II

Retailing in India – An Overview
2.1 Introduction

Indian retail business is one of the core sectors of the Indian economy, with the organised retail sector growing by 400% of its current size! Retailing is one of India’s largest industries, contributing about 10% of the GDP and it provides employment to about 8% of the nation’s workforce.

India’s retail market, valued at US$350 billion, in the year 2008-09 is expected to grow at a rate of 13% per annum. The Business Monitor International's BMI India Retail Report (2011) for the first-quarter forecasts that total retail sales will grow from US$ 392.63 billion in 2011 to US$ 674.37 billion by 2014.

Strong underlying economic growth, population expansion, the increasing wealth of individuals and the rapid construction of organised retail infrastructure are
key factors behind the forecasted growth in the organized retail sector. According to a McKinsey & Company report (2008), organised retail in India is expected to increase from 5% of the total market in 2008 to 14% - 18% of the total retail market and reach US$ 450 billion by 2015. The country’s retail sector is the second largest employer after agriculture with retail trade employing 35.06 million and wholesale trade an additional 5.48 million. The growth in revenues of a retailer is determined by the type of products retailed. The contribution of different segments to the total value of the retail market in India is given in Table 2.1.

<table>
<thead>
<tr>
<th>SEGMENTS</th>
<th>% of Total value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>62</td>
</tr>
<tr>
<td>Fashion</td>
<td>10</td>
</tr>
<tr>
<td>Fashion Accessories</td>
<td>8</td>
</tr>
<tr>
<td>Consumer Durables</td>
<td>6</td>
</tr>
<tr>
<td>Furniture</td>
<td>4</td>
</tr>
<tr>
<td>Health, beauty &amp; pharma</td>
<td>4</td>
</tr>
<tr>
<td>Leisure &amp; Entertainment</td>
<td>3</td>
</tr>
<tr>
<td>Telecom</td>
<td>2</td>
</tr>
<tr>
<td>Books &amp; Music</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Pantaloon Retail India Limited Annual results presentation Sep 26, 2009
India is at an early stage of evolution in organized retail with its current penetration being 5%. The share of Indian organized retail in total global retail trade is expected to grow annually by 40%. Given in Table 2.2 are the comparative penetration levels of the retail sector in major countries across the world.

**Table 2.2 – Organized retail penetration levels**

<table>
<thead>
<tr>
<th>Country</th>
<th>Retail Penetration levels (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>85%</td>
</tr>
<tr>
<td>France</td>
<td>80%</td>
</tr>
<tr>
<td>Japan</td>
<td>66%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>55%</td>
</tr>
<tr>
<td>Brazil</td>
<td>36%</td>
</tr>
<tr>
<td>Russia</td>
<td>33%</td>
</tr>
<tr>
<td>China</td>
<td>20%</td>
</tr>
<tr>
<td>India</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Source: The retailer (2009)*

Table 2.2 is an indirect indication of India's enormous growth potential in organized retail. The report mentions that the per capita income of Indians in 2009-10 has increased to US$849 from the 2000-01 figure of US$348. Ernst & Young IBEF Report (2010) mentions that the Indian consumer class is expected to grow from 50 million to 583 million by 2025 with more than 23 million expected to be among the wealthiest people in the world. Nilekani (2008) has mentioned that India has one of the youngest populations in the world with 60% of the population below the age of 30. Since brand awareness is high for this age group, it throws up immense potential for major brands to promote their wares through retail stores.
The Indian consumer mindset is experiencing a paradigm shift from low pricing requirements to convenience and comfort in the shopping experience, coupled with a need for products and services that offer good value for money. Emergence of new age financial concepts like Equated Monthly Instalments (EMI), credit cards etc, makes it easy for customers to afford new products.

The boom of the real estate business has proved to be a boon for the growth of the retail sector in India. Major real estate companies are now venturing into retail business by setting up their own shopping malls thus providing them an opportunity to reap the benefits of both the sectors. A research report by Knight Frank India (2010) observes that around 55 million square feet (sq ft) of retail space will be ready in Mumbai, National Capital Region (NCR), Bengaluru, Kolkata, Chennai, Hyderabad and Pune. Besides, between 2010 and 2012, the organised retail real estate stock has grown from the existing 41 million sq ft to 95 million sq ft.

Since rural India accounts for more than 70% of the Indian household population and about 2/5 of the nation’s consumption, a lot of FMCG companies are expanding their retail footprints into the rural areas thus popularizing the Bottom of the Pyramid concept propounded by the famous management thinker, Late Dr C.K. Prahlad. Companies have also come out with innovative product concepts like sachets, community shops, initiatives like DCSL’s Hariyali Kisan Sagar & ITCs e-Choupal. This has ensured a steady growth in the Indian retail sector in spite of the global economic meltdown.
Davidson, Bates and Bass (1976) have mentioned that retailing also has a life cycle called as retail life cycle similar to the product life cycle. The stagnation experienced in the maturity stage of the retail product life cycle of several stores compel them to experiment with non-store retail formats like Direct selling, direct marketing and automatic vending machines. Although 97% of goods are sold through stores, non-store retailing is also fast gaining acceptance.

Direct selling or Multilevel selling is a format where companies sell door to door or at home sales parties. Pioneered by Amway Corporation, the network marketing sales system works by recruiting independent individuals as distributors. Their compensation is a percentage of the sales made by him/her as well as by those he/she recruits.

Direct marketing includes telemarketing, television direct response marketing through channels like Home shopping network and electronic shopping through websites like amazon.com, indiamart.com etc. As per The Economist (2006), travel was the biggest contributor in direct marketing revenues at $64 billion, followed by computer equipment and software at $14 billion, automobiles at $13 billion, clothing at $11 billion and home furnishings at $8 billion in year ending 2005.

Automatic vending machines are another mode of non store retailing and are popular for impulse goods like cigarettes, soft drinks, confectionery, cosmetics, condoms, paperback novels etc. Buying service is another mode where a store-less
retailer serves a specific niche segment by offering discounts in return for membership in the marketing arrangement.

Kotler (2009) studied that retailers position themselves by offering one of the four levels of services mentioned below.

i. Self Service model where the customers are free to choose their own location, compare & select products and services on offer to ensure that they get the best value for their money as per their own tastes and preferences taking ample time for shopping, if required.

ii. Self Selection model where the customers locate their own goods but ask for assistance from the service staff.

iii. Limited Service model where the retailers carry more shopping goods and allied services such as credit and return-refund.

iv. Full Service model where the sales people assist in every phase of the location, comparison and selection processes. This model is preferred by customers who like to be waited upon and handheld through the entire shopping process. There is higher cost of retailing in this model for the obvious reason of higher staffing as well as the presence of an inventory of slower moving, higher proportion of specialty goods on display for sale.
2.2 Key players in Indian retail sector

The Indian retail sector owes its growth to the major players in Indian retail like, Tata Group, Raheja Group, Future Group, Landmark Group, Reliance Group, Bharti Group, RPG Group, Mahindra Group, Aditya Birla Group and Vishal Retail.

The rising customer requirements for comfort, convenience and ambience in the shopping experience is posing a serious threat to traditional retail formats like kirana stores which are fast being replaced by glitzy shopping malls and hypermarkets that are mushrooming across India.

2.3 Different retail store formats in India

The different retail store formats available in India are explained below

**Hypermarkets**

The average size of the store varies between 50,000 sq.ft and 1,00,000 sq.ft. A large basket of products ranging from grocery, fresh & processed food, beauty & household products, clothing and appliances are carried in the store. Spencers & Big Bazaar follow this model in India.

**Cash and Carry**

The average size of the store is 75,000 sq ft and it follows the wholesaling format and serves as the hub for retailers to pick up products in bulk. The German giant, Metro & the joint venture of Bharti and Wal-Mart follow this model in India.
Supermarkets

These are stores that are large in size and very typical in layout carrying household items, grocery and food products. Food Bazaar and Apna Bazaar are examples.

Department stores

The size of the store varies between 10,000 sq ft and 60,000 sq ft with a very large layout carrying a wide mix of merchandise. Shoppers Stop & Lifestyle are of this pattern in India.

Shop in Shop

These are individual shops located inside the premises of large shopping malls. They are spaces either leased out or rented out to the stores by the builders of these large shopping malls on a profit share or rent only basis. Oberon Mall in Cochin, Focus Mall in Kozhikode, Mantri Mall in Bangalore and a whole lot of malls in all major cities in India can be cited as examples.

Specialty Stores

These are single category stores focusing on a narrow product line and on individuals and clusters of same class. Brand Factory, Body Shop and Himalaya Stores follow this pattern.

Category Killers
These are large specialty retail stores with an average size of 8000 sq ft who end up offering so much variety in products that they kill the competition in that category from anyone else in the city. Nalli Silks, Kumaran Silks, Pothy's in Tamil Nadu are examples.

**Discount Stores**

These stores have an average size of about 1000 sq ft and carry branded range of products at discounted prices. Subhiksha and Levi’s follow this model of operation.

**Convenience Stores**

These stores have an average size of just about 800 sq ft and are located in residential localities. Safal stores and In & Out convenience stores from Hindustan Petroleum are examples.

**Other Modes of Entry into Retail Sector**

A large number of entrepreneurs are also using the franchisee model for promoting their business through global brands. Tommy Hilfiger, Spar International, Costa Coffee, Hertz, Radisson, Kentucky Fried Chicken, McDonalds, Color Plus, Provogue, Woodlands, Liberty etc are all examples of that model.
Joint ventures are also emerging as a preferred model for entry of international players who want to use the local knowledge of the regional players and their extensive network to get a foothold into the Indian retail market. Bharti Wal-Mart JV and Pantaloon Staples JV are examples of such ventures.

Certain players like Nokia India and Dabur have tried vertically integrating their businesses to bring in retail chains like Concept stores and NewU respectively.

Another business model is in the collaboration at the back end sourcing where huge players like Future Group, Aditya Birla Group, RPG and Reliance have joined hands to reduce their operational costs and increase margins by aligning their sourcing, operations, sharing private labels, logistics, warehouses and private deals on a transactional payment basis.

As per the Ernst & Young IBEF (2010) report, almost every major retailer of substance in India is planning huge expansions in the coming years. Shoppers Stop Limited, which currently operates about 30 stores in India, plans to add 8 more stores in 2010-11 with an investment of US$28 million. Pantaloon Retail India Ltd, is investing nearly US$83 million to expand its various formats in 2010-11. Spencer’s Retail that operates around 220 stores in India plans to add 10-15 more large sized stores with an investment of US$28 million. Lifestyle International (P) Ltd plans to open 50 more stores in 2012-13. Raymond Ltd, opened 100 stores in 2010 and plans 200 more in 2011.
Electronic retail chain major, Next Retail India, opened 400 showrooms across the country during January-March 2011 increasing their total number of retail stores to 1,000 by the end of the fiscal year 2010-11. Jewellery retail store chain Tanishq plans to open 15 new retail stores in various parts of the country in the 2011-12 fiscal. V Mart Retail Ltd, a medium-sized hypermarket format retail chain, is set to open 40 outlets over the next three years, starting with 13 stores in 2011, in Tier-II and Tier-III cities.

Future Value Retail, a Future Group venture, will take its hypermarket chain Big Bazaar to smaller cities of Andhra Pradesh, with an investment of around US$ 1.54 million to US$ 4.41 million depending on the size and format. Leading watchmaker Titan Industries Limited plans to invest about US$ 21.83 million for opening 50 premium watch outlets Helios in next five years to attain a sales target of US$ 87.31 million.

Foreign Direct Investment in the Indian retail scene is governed by the FDI Policy of the Government of India and the Foreign Exchange Management (FEMA) Act of 1999. Although 100% FDI is permitted in wholesaling business in India, only 51% FDI is allowed in multi-brand retailing. This has necessitated partnership arrangements by major Indian players with international players in the retail sphere.

Reliance Group joined hands with Marks & Spencers to open 50 stores for clothing & home ware. They have tied up with Pearle Europe to launch a chain of
optical stores and with Vornado Realty Trust to collectively invest US$50 million to acquire, develop & operate retail shopping centres. They have agreed with Office Depot Inc to launch 250 standalone stores and have also entered into a pan Indian franchisee agreement with Hamley’s UK.

Future Group has tied up with Staples Inc USA for retail licensing of more than 700 products in India. They also have arrangements with Axiom Telecom LLC, UAE to market telecom products service & distribution, with Celio SA to open retail garment stores, with Clarks International UK to sell Premium international footwear and with Fashion Box Group, Italy to sell its luxury denim brand. Similarly, Tata Group have tied up with International retail giant Tesco to supply products, services & expertise to Star bazaar, its hypermarket arm.

Foreign direct investment (FDI) inflows between April 2000 and October 2010, in single-brand retail trading, stood at US$ 197.04 million, according to the Department of Industrial Policy and Promotion (DIPP). Carrefour, the world’s second-largest retailer, has opened its first cash-and-carry store in India in New Delhi. Germany-based wholesale company Metro Cash & Carry (MCC) opened its second wholesale centre at Uppal in Hyderabad, taking to its number to six in the country.

Spar Hypermarkets, the global food retailing chain of the Dubai-based Landmark Group, expects to start funding its Indian expansion plans beyond 2013,
solely out of the local cash flows generated in the country. So far, the Landmark Group has invested US$ 51.31 million in setting up five hypermarkets and plans to pump in another US$ 51.31 million into the next phase of expansion.

British high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years. Spain's Inditex, Europe's largest clothing retailer opened the first store of its flagship Zara brand in India in June 2010. It further plans to open a total of five Zara outlets in India.

Bharti Retail, owner of Easy Day store—supermarkets and hypermarkets—plans to invest about US$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country by then.

The increasing international & regional tie-ups have resulted in a large number of products being shipped and transported all around the country and the globe resulting in a logistical nightmare for companies, who have to keep track of each individual product and Stock Keeping Unit (SKU). Inventory management & supply chain management gains utmost prominence in the retail sector due to the sheer logistical efforts required to ensure that the right products are at the right store/warehouse at the right time.