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Chapter 2

CHAPTER TWO

EMERGING WORLD OF ORGANIZED RETAIL INTO UNORGANIZED RETAIL SPREAD IN INDIA: OPPORTUNITIES V/S CHALLENGES WITH INDIAN CONSUMER BASE

India is one of the largest emerging markets, with a population of over one billion. It is one of the largest economies in the world in terms of purchasing power. Retailing in India is at a nascent stage of its evolution, but within a small period of time certain trends are clearly emerging which are in line with the global experiences.

India is fast becoming the retail destination of the world. India has emerged as the fourteenth most favorable destination for international retailers, according to GRDI 2013 report. "The Indian retail is poised to become a $1.3 trillion opportunity by 2020. With the current market size estimated at $500 billion, this translates to an additional $800 billion in the next eight years," said R.V. Kanoria, president of the Federation of Indian Chambers of Commerce and Industry (FICCI).

Market size of Indian retail industry

Indian retail industry has shown continuous rise in its growth since 1998 till year. The below figure shows that Indian retail industry has reached to $490Bn size in comparison to in $201Bn noted in the year 1998 registering a CAGR of 6.1 per cent since 1998. Further it can be seen that there is a consistent increase in the market size which reflects promising future and by this way industry attraction as well
According to RAI 2014 Report, Indian retail market is expected to grow at a CAGR of 13% till 2018. Globally, India is among the top 10 retail markets. In 2013, the Indian retail sector was estimated at US$520 billion and was among the largest employers in the country. By 2018, the Indian retail sector is likely to grow at a CAGR of 13% to reach a size of US$950 billion.

India presents a huge opportunity to the world at age, to use as a hub. Standing on the threshold of a retail revolution and witnessing a fast changing retail landscape, India is all set to experience the phenomenon of global village. India is the “promised land” for global brands and Indian retailers “A vibrant economy”. The retail sector has been at the helm of India’s growth story. The sector has evolved dramatically from traditional village fairs, street hawkers to resplendent malls and plush outlets, growing from strength to strength.

India tops in the list of emerging market for global retailer and India’s retail sector is expanding and modernizing rapidly in line with India’s economic growth.
2.1.1 Indian Retail on Global Index

Indian retail industry has shown high volatility on the global retail development index which is presented below

Table 2.1: Positioning of Indian retail in the Global Retail development Index

<table>
<thead>
<tr>
<th>Year</th>
<th>GRDI Score</th>
<th>Global Retail Country Ranking</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>65</td>
<td>5</td>
<td>Attractiveness of Indian retail market.</td>
</tr>
<tr>
<td>2004</td>
<td>88</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>100</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>100</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>92</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>80</td>
<td>2</td>
<td>Repulsiveness of Indian retail market</td>
</tr>
<tr>
<td>2009</td>
<td>68</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>61.7</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>63</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>60.8</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>55</td>
<td>14</td>
<td></td>
</tr>
</tbody>
</table>

Source: A.T.Kearney, GRDI 2003 to 2013

The above table represents volatility into Indian retail industry. Industry became attractive gradually from the period of 2003 to 2007 amongst all countries. Even though in 2007 score declined but industry remained attractive amongst all as first ranking is maintained. Thus 2003 to 2007 period showed Attractiveness of Indian retail market.

But 2008, a time of recession gave striking impact on the industry. Industry attractiveness started declining along with GRDI ranking. Though in 2009 ranking shifted to 1 from 2 but there was a huge decline in the industry attractiveness score from 80 to 68 score. During 2011 marginal increment by 1.3 in the score but ranking showed decline in the attractiveness. After that only decline trend continued. Thus post 2008 period showed repulsiveness of Indian industry
2.1.2 Growth Slowdown, but Still Strong

The global slowdown hasn't spared India, whose GDP growth rate slipped to 5 percent, down from a 10-year average of 7.8 percent. Same-store sales volume growth slowed in 2012 across retail, particularly for lifestyle and value-based formats. India fell nine spots in the GRDI to 14th; its previous low ranking was 6th place in the inaugural Index in 2002.

High operating costs, low bargaining power with vendors, and heavy discounting to improve sales affected profits and expansion plans. Real estate cost and space availability also remained important issues. Many players till date are actively looking at improving sales productivity, cutting operating costs, and reducing store size.

However, the long-term fundamentals remain strong in particular, a large, young, increasingly brand- and fashion-conscious population. Retail growth of 14 to 15 percent per year is expected through 2015. Modern retail remained limited (7 percent in 2012), but it is expected to grow as the country urbanizes and retailers make new investments.

2.1.3 Share of Organized and Unorganized base in Indian Retail

The retail sector of Indian economy is categorized into two segments such as organized retail sector and unorganized retail sector with the latter holding the larger share of the retail market.

Statistically, over 14 million outlets operates in the country and only 4 percent of them are larger than 500sq.ft. in size. India has about 11 shop outlets for every 1000 people. These are typically family owned and operated stores, which lack the scale to grow. Hence the sector presents a dire need of more investments towards modernization, according to Manisha Bapna of Images group compiled in KPMG, Indian Retail-The next growth story (2014)
In terms of global comparison of the organized retail sector penetration, other developing countries, such as Malaysia, Thailand, Indonesia and China, India is far behind. It enjoys only 8% penetration of Organized retail in the dominance of 92% of Unorganized retail spread.

2.2 Unorganized Retail Spread in India

According to the National Accounts statistics of India, the unorganized sector includes units whose activities are not regulated by any statute or legal provision, and/or those, which do not maintain regular accounts. India has some 15 million retail outlets, however a disturbing point is that 96 per cent of them are smaller than 500 square feet in area. This means that in India per capita retailing space is about 2 square feet (compared to 16 square feet in the United States). India’s per capita retailing space is thus the lowest in the world. According to a survey by AT Kearney, an overwhelming proportion of the Rs. 4,00,000 crore retail markets is unorganized. Consumers familiarity that runs from generation to generation is one big advantage for the traditional retailing sector.
### 2.2.1 Spread of Unorganized Retail Formats

Unorganized retailers enjoy its wide presence all across India since inception of retail industry the following table shows overall spread of unorganized retailers in India

#### Table 2.2: Spread of unorganized Retail Outlets

<table>
<thead>
<tr>
<th>Type of Retail Outlet</th>
<th>Spread of outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haats</td>
<td>Average Sales per Day-Rs.2.25 lakh</td>
</tr>
<tr>
<td></td>
<td>Number of sales outlets per - Haat 300+</td>
</tr>
<tr>
<td></td>
<td>Number of Visitors per Haat- 4500+</td>
</tr>
<tr>
<td></td>
<td>Average Sales per Outlet-Rs 900</td>
</tr>
<tr>
<td></td>
<td>Villages covered by a Haat - 20-50</td>
</tr>
<tr>
<td>Melas</td>
<td>Annually held (Approx) - 25,000+</td>
</tr>
<tr>
<td></td>
<td>Outlets held at every mela at an average - 800+</td>
</tr>
<tr>
<td></td>
<td>Average Sales per Mela-Rs 143 Lakh</td>
</tr>
<tr>
<td>Mandis</td>
<td>At average exists - 6,800 catering to a population of 1.36 Lakh</td>
</tr>
<tr>
<td>Public Distribution System</td>
<td>463000 outlets</td>
</tr>
<tr>
<td>Post offices</td>
<td>160000 outlets</td>
</tr>
<tr>
<td>Khadi and Village Industries Commission</td>
<td>7000 outlets</td>
</tr>
<tr>
<td>Kendriya Bhandars</td>
<td>112 stores + 42 fair price stores</td>
</tr>
<tr>
<td>Canteen Stores Department</td>
<td>3400 outlets</td>
</tr>
<tr>
<td>Push cart Vendors</td>
<td>Unlimited</td>
</tr>
<tr>
<td>Kirana Stores</td>
<td>More than 12 Million</td>
</tr>
<tr>
<td>National Textile corporation(NTC)</td>
<td>100</td>
</tr>
<tr>
<td>Amul co-operative movement</td>
<td>5,00,000 outlets</td>
</tr>
</tbody>
</table>

Source: CII – Retail Scenario in India – Unlimited Opportunity
KVS Madaan (2009), Fundamentals of Retailing, pp. 22-23
2.2.2 Unorganized Retail Sector is still Predominating over Organized Sector in India: The Reasons -

- In smaller towns, there are many families who are traditionally using kirana shops/ 'mom and pop' stores offering a wide range of merchandise mix. Generally these kirana shops are the family business of these small retailers which they are running for more than one generation.
- Kirana shops have their own efficient management system and with this they efficiently fulfill the needs of the consumer. This is one of the good reasons why consumer doesn't want to change their old loyal kirana shop.
- A large number of working class in India is working on daily wage basis. At the end of the day when they get their wage, they come to this small retail shop to purchase wheat flour, rice etc. For them this the only place to have those food items because purchase quantity is so small that no big retail store would entertain this.
- There is another consumer class who are the seasonal workers. During their unemployment period they use to purchase from this kirana store on credit and when they get their salary they clear their dues. This type of credit facility is not available in corporate retail store, so this kirana stores are the only option to them.
- Another reason might be the proximity of the store. It is the convenience store for the consumers. In every corner of the street an unorganized retail shop can be found that is hardly walking distance from the consumer's house. Many a times consumer’s prefer to shop from the nearby kirana shop rather than to drive a long distance.

In India the unorganized retail is a source of food and other necessities of millions of Indians. Not only that, it also act like a convenience store for the consumer by offering right product at right time at right place. In a country with large numbers of people and high levels of poverty, this model of retail democracy is the most appropriate. Despite the entry of organized retailers into Indian retail, unorganized sector is still preferred by the consumers as they are more convenient and easy to approach.

*The kirana shop owner knows that the buyer buys place first and they offer that utility.*
2.2.3 Classification of the Unorganized Retail in India

Unorganized retail in India caters to types of products in need and demand. The classification of the unorganized retail universe by category is shown below.

Category wide classification of Unorganized Retailers in India

1. **Fruit & vegetable sellers** – Sells fruits and vegetables.
2. **Food stores** - Result of bakery products. Also sells dairy and processed food and beverages.
3. **Non-Vegetable Store** - Sells chicken and mutton.
4. **Kirana I** - Sells bakery products, dairy and processed food, home and personal care and beverages.
5. **Kirana II** - Sells categories available at a kirana – I store plus cereals, pulses, spices and edible oils.
6. **Apparel** - Sells men’s wear, women’s wear, kids & infant wear.
7. **Footwear** - Sells men’s wear, women’s wear, kid’s wear
8. **Customer durables & IT** - Sells electronics, durables & IT products.
9. **Furnishing** - Sells home lines & upholstery.
10. **Hardware** - Sells sanitary ware, door fitting, tiles.
11. **General merchandise** - Includes lighting, stationery, toys, gifts & crockery.

2.3 Emergence of Organized Retail and its Spread

2.3.1 Developmental Phases of Organized Retail Sector

Movement towards organized and modern retail started its inception before 1990’s but economic reforms in 1990 provided the right kind of environment for the development of organized retail formats in India.

- Development of modern retailing in India started with textile sector when the country’s established business houses, mostly textile majors, ventured into the retail arena through company-owned or franchisee outlets. One of the pioneers in this field was Raymond’s, which set up stores to retail fabric. It also developed a dealer
network to retail its fabric. These dealers sold a mix of fabric of various textile companies. There were also exclusive tailoring shops, that ultimately expanded their span of operations to become leading regional fashion retailers - Mumbai’s Charagh Din, Kolkata’s Burlington, Delhi’s Mohanlal Sons and Bangalore’s PN Rao, to name a few. Other textile manufacturers who also set up their own retail chains were Reliance which set up Vimal showrooms and Garden Silk Mills with Garden Vareli in early 1980s

Then after new era of different formats of organized retail started its spread in India,

- Nilgiri by 2005 spreaded its super market chain with the network of 30 stores in many southern states
- Hyderabad based Trinetra group opened up its first supermarket in 1986
- Khadim footwear started its operations in 1993
- RPG Group started its operations in 1999
- Post liberalization players like shoppers stop, spencer, music world, subhiksha, reliance retail,tata trent, Aditya birla, cross world entered in the Indian retail segment gradually with different modern formats in the organized form

This was the beginning of a new era for retail in India. Organized retailing in India showed robust growth as several retail chains established a base in metropolitan cities and then all over India at a rapid pace. The fact that post liberalisation, the economy had opened up a new large middle class with spending power due to dual income but dearth of time has helped shade this sector. Families have got growth in income which has changed the lifestyle. This lifestyle has led to increased demand for better quality products while lack of time has led to a demand for convenience and services.

Thus, the Indian Organized Retail Evolution can be classified in following phases:
Evolution phases of Indian organized retail industry

**Initiation**
- Pre 1990's
  - Manufacturers opened their own outlets
  - Pure play retailers realised the potential of the market
  - Most of them in apparel segment

**Conceptualization**
- 1990-05
  - Substantial investment commitments by huge Indian corporates
  - Entry in food and general merchandise category
  - Pan-India expansion to top 100 cities
  - Repositioning by existing players

**Expansion**
- 2005-10
  - Large scale consolidation
  - Movement to smaller cities and rural areas
  - More than 5-6 players with revenues more than USD 700 million
  - Large scale entry of International brands
  - FDI in single brand retail up to 100 percent from 51 percent
  - Approval of FDI limit in multi brand retail up to 51 percent
  - Rise in private label brands by retail players
  - Increasing investment in retail infrastructure

**Consolidation**
- 2010 onwards

Source: Indian brand equity foundation, industry report-retail, 2013
**Retail Initiation:** This phase was essentially dominated by manufacturers establishing their presence in retail. Bombay Dyeing, the Raymond Group, the S Kumars Group and Bata to name a few. Government initiatives were - Mother Dairy, Kendriya Bhandar, Super Bazaar, etc. Foodworld, was the first national retail chain from the RPG Group in the Super Market segment.

**Retail Conceptualization:** This time around it was not the manufacturer looking for an alternative sales channel, but pure-play retailers who entered the retail market like Pantaloons, Shoppers’ Stop and Lifestyle to name a few.

**Retail Expansion:** This is perhaps the most active phase of the Indian retail industry in terms of growth, entry of new players and development of new formats. With virtually unlimited potential on desk, Reliance, Tata, Aditya Birla and Mahindras entered the bandwagon. Their success brought in global retailers such as Metro AG, Max Retail, Shoprite and Hypercity.

During this phase, a new concept in Retail Real Estate emerged - Minimum guarantee and revenue sharing models. With the FDI policy 2005-2006 allowing single-brand foreign retailers to take up to 51 per cent stake in a joint venture with a local firm, the intervening years saw the entry of several premium brands (Giorgio Armani, Versace, Gucci, etc.) mostly through joint ventures.

**Consolidation:** The Indian modern retail sector, which witnessed a phase of consolidation from the second half of 2008 till 2009, remained a complete learning phase. Having weathered the storm, organized retailers are now looking ahead, chalking out growth plans and eyeing profitability by restructuring their stores.
Table 2.3: Growth & development of Indian retailing from 1999-2011 (at current prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Retail Market (Rs Crore)</th>
<th>Organised Retail Market (Rs Crore)</th>
<th>% Share of Organised Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>7.00,000</td>
<td>5.000</td>
<td>0.7</td>
</tr>
<tr>
<td>2000</td>
<td>4.00,000</td>
<td>5.000</td>
<td>1.3</td>
</tr>
<tr>
<td>2001</td>
<td>7.20,000</td>
<td>13.000</td>
<td>1.6</td>
</tr>
<tr>
<td>2002</td>
<td>8.25,000</td>
<td>15.000</td>
<td>1.8</td>
</tr>
<tr>
<td>2003</td>
<td>8.85,000</td>
<td>23.000</td>
<td>2.6</td>
</tr>
<tr>
<td>2004</td>
<td>9.30,000</td>
<td>28.000</td>
<td>3.0</td>
</tr>
<tr>
<td>2005</td>
<td>10.30,000</td>
<td>37.500</td>
<td>3.6</td>
</tr>
<tr>
<td>2006</td>
<td>12.00,000</td>
<td>55.000</td>
<td>4.6</td>
</tr>
<tr>
<td>2007</td>
<td>13.30,000</td>
<td>78.300</td>
<td>5.9</td>
</tr>
<tr>
<td>2008</td>
<td>14.80,000</td>
<td>1.12.000</td>
<td>7.7</td>
</tr>
<tr>
<td>2009</td>
<td>16.40,000</td>
<td>1.60.000</td>
<td>9.7</td>
</tr>
<tr>
<td>2010</td>
<td>18.10,000</td>
<td>2.29.870</td>
<td>12.7</td>
</tr>
<tr>
<td>2011e</td>
<td>18.61.012 $395.96 billion (e)</td>
<td>2.37.092 $50.44 billion (e)</td>
<td>12.74 (e)</td>
</tr>
<tr>
<td>2012-15e</td>
<td>36.90.064 $785.12 billion (e)</td>
<td>5.42.439 $115.41 billion (e)</td>
<td>14.7 (e)</td>
</tr>
</tbody>
</table>


Thus it can be said that organized retail is gradually spreading its wings into the industry but still growth rate is at the nascent stage.

According to McKinsey & Company report titled ‘The Great Indian Bazaar: Organized Retail Comes of Age in India’, organized retail in India is expected to increase from 5 per cent of the total market in 2008 to 14 - 18 per cent of the total retail market and reach US$ 450 billion by 2015.
The Indian retail sector is set to grow rapidly with a gradual shift toward organized retailing formats. Organized retail penetration is expected to increase from 7.5% in 2013 to 10% in 2018 at a robust CAGR of 19-20% during the same period. This will be driven by a combination of demand, supply and regulatory factors, which are expected to be the growth engines of the Indian consumer and retail market.

Figure 2.4: Organized retail share in total share of retail

BY 2015, ORGANISED RETAIL WILL HAVE A 14-18% SHARE OF TOTAL RETAIL

2.3.2 Spread of Formats in Organized Retail Sector

Shopping malls: The biggest form of retail in India, malls offers consumers a mix of all types of products and services including entertainment and food under a single roof. Malls are located mainly in metro cities, in proximity to urban outskirts and ranges from 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Ambience Mall, Ansal Plaza, Shipra Mall etc.

Source: The great Indian Bazaar-Organized retail comes of age in India(2008), Mc Kinsey & Company, New Media, Sydney
Convenience stores: These are located in residential areas with slightly higher prices goods due to the convenience offered. The stores are basically small in size (500-3,000 square feet), which allows quick shopping and fast checkouts. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Convenience stores offer easy purchase experience through easily accessible store locations.

Discount stores: As the name suggests, discount stores or factory outlets offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The focus of these stores is to offer merchandise at a price that is lower than the market price, and to gain profit from volumes. These stores keep merchandise mainly on the basis of its saleability. Usually these are no-frills stores with simple surroundings and less service. The product category can range from a variety of perishable/ non perishable goods. Big Bazaar and Subhiksha are some famous examples.

Specialty stores: Specialty stores are retail chains dealing in specific categories and provide deep assortment. These stores usually ‘specialize’ in one line/category of merchandise. As these stores are concerned with only one type of merchandise, they are able to offer a wider range of products at a lower price. Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG’s Music World and the Times Group’s music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

Category Specialists / killers: These are big box discount stores that offer a narrow but deep assortment of merchandise. These retailers are basically discount specialty stores. By offering a complete assortment at low prices, category specialists can “kill” a category of merchandise for other retailers and thus are frequently called category killers. For example, Office Depot, electronics (Best Buy) and sporting goods (Sport Authority), The Home Store, Landmark, Music World etc. are some of the category specialists.
Departmental stores: These are general retail merchandisers offering quality products and services. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. These stores are typically lifestyle stores where most of the merchandise constitutes apparels and products other than food and grocery. These stores offer high quality service to consumers. These stores stock lesser merchandise than other formats since the merchandise is stored in a presentable manner. Among these, the biggest success is K Raheja’s Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India and even has its own in store brand for clothes called Stop! Others are Westside, Lifestyle, Pantaloons

Hypermarkets: Big-box formats with an average size that ranges between 60,000-120,000 square feet, and they stock multiple lines of products such as food and grocery, general merchandise, sports goods, and apparels. These are located in or near residential high streets. Hypermarkets are mammoth outlets that are fewer in number but cater to a larger area (3-5 kilometre). Hypercity, Big Bazaar, RPG Spencer’s and Shoprite Hyper are some major players in this format.

Supermarkets: The average size of supermarkets range from 10,000-30,000 square feet. They are a smaller version of hypermarkets that holds multiple lines of merchandise but is limited in number when compared with supermarkets. Supermarkets are spread across the city, are greater in number, but cater to a smaller area (1-2 kilometre). Nilgiri’s, subhiksha and Spinach are some major players in this format.

Cash-and-carry outlets: Cash-and-carry outlet is strictly not a retail format, but considering the business dynamics it follows, it can qualify for a retail format. In a retail business usually a consumer has to purchase one or more products but under this format, the consumers have to buy a minimum volume of products or value specified by the cash-and-carry retailer. In this format the buyers are basically small retailers or catering service providers who purchase in bulk quantities. This stores’ size ranges from 1,00,000 square feet to 3,00,000 square feet. At present, Metro is a major player that falls under this format. Wal-Mart’s alliance with Bharti and Tesco’s with Trent will also come under the cash-and-carry format.
2.3.3 Major Players in Organized Retail in India

The major retailers in the organized retail sector in India are:

**Aditya Birla Retail Limited**

Aditya Birla Retail Limited is the retail arm of Aditya Birla Group, a USD 28 billion Corporation. The Company ventured into food and grocery retail sector in 2007 with the acquisition of a south based supermarket chain “Trinethra”. Subsequently Aditya Birla Retail expanded its presence across the country under the brand "More" with formats Supermarket & Hypermarket. More supermarkets cater to the daily, weekly and monthly shopping needs of consumers. The product offerings include a wide range of fresh fruits & vegetables, groceries, personal care, home care, general merchandise & a basic range of apparels. The Hypermarket More Megastore is a one stop shopping destination offerings catering to entire family.

**Bharti Retail Ltd.**

Bharti Retail Ltd. is a wholly owned subsidiary of Bharti Enterprises. Bharti Retail operates a chain of multiple format stores. The company’s neighborhood format stores operate under the "Easyday" brand and the hypermarket format as “Easyday market” brand. Bharti Enterprises has tie-up with Walmart Stores Inc for wholesale, business-to-business and cash-and-carry and back-end supply chain management operations in India. The Joint venture launched its first B2B Best Price Modern Wholesale cash-and-carry store in Amritsar in May 2009. A typical cash-and-carry store stand between 50,000 and 100,000 square feet and sells a wide range of fresh, frozen and chilled foods, fruits and vegetables, dry groceries, personal and home care, hotel and restaurant supplies, clothing, office supplies and other general merchandise items.

**Reliance Retail Limited**

Reliance Retail Limited (RRL), is a subsidiary of RIL. Since its inception in 2006, Reliance Retail Limited (RRL) has grown into an organization. RRL operates several ‘value’ & ‘specialty’ formats. The ‘value’ formats that RRL operates are as under
Organized Retail: Opportunities v/s challenges  

**Value format:** Reliance Fresh, neighborhood concept for daily household needs

**Specialty formats:**
- Reliance Digital - Consumer durables & information technology concept
- Reliance Trends - Apparel & accessories concept
- Reliance Wellness - Health, wellness & beauty concept
- iStore by Reliance Digital - Exclusive Apple products concept
- Reliance Footprint - Footwear concept
- Reliance Jewels - Jewellery concept
- Reliance TimeOut - Books, music & entertainment concept
- Reliance AutoZone - Automotive products & services concept
- Reliance Living - Home ware, furniture, modular kitchens, furnishings concept.

**Business-to-business format: Reliance market**

**Future Group (Pantaloon Retail)**

Pantaloon Retail is the flagship company of Future Group. Pantaloon Retail (India) Limited, is India’s leading retailer that operates multiple retail formats in both value and lifestyle segment of the Indian consumer market. With headquartered in Mumbai, the company operates over 16 million square feet of retail space, with over 1000 stores across 73 cities and 65 rural locations across India and employs over 30,000 people. The company’s leading retail formats are:

- Apparel: Pantaloons
- Food & Grocery: Big Bazaar, Food Bazaar
- Home Solutions: Hometown, Furniture Bazaar, Collection-i
- Consumer Electronics: e-zone
- Rural Retail chain: Aadhaar
- Shoes: Shoe Factory
- Books, Music & Gifts: Depot
- Health & Beauty Care: Star, Sitara
- E-tailing: Futurebazaar.com
- Entertainment: Bowling Co.
Vishal Retail Ltd

Vishal Retail Ltd. is flagship company of Vishal Group which is engaged in fashion garment stores with an average area of 25,000 to 30,000 sq. ft. through an impressive chain of 172 fully integrated stores spread over the area of more than 24,00,000 sq. ft. in around 110 cities across India in 24 states. The showrooms have over 7000 products range which fulfills all household needs and can be catered under one roof.

Tata Group

Tata group is another major player in Indian retail industry with its subsidiary Trent, which operates Westside and Star India Bazaar. Established in 1998, it also acquired the largest book and music retailer in India ‘Landmark’ in 2005. Trent owns over 4 lakh sq. ft retail space across the country.

Spencer's Retail Limited

Spencer's Retail Limited is a Flagship Company of RPG Enterprises. Spencer's Retail Limited has footage of approximately 1 million square feet, 220 stores, including 30 large format stores across 35 cities in India. Established in 1996, Spencer's has become a popular destination for shoppers in India with hypermarkets and convenient stores catering to various shopping needs of its large consumer base. The Spencer's Hyper stores are destination stores, of more than 15,000 sq. ft in size. They offer everything under one roof. On an average, a Spencer's hyper stocks 70,000 SKUs across 35,000 items. The Spencer's convenient stores are neighborhood stores ranging from 1500 sq. ft. to 15000 sq. ft. These stores stock the necessary range and assortment in fruit and vegetables, FMCG food and non-food cater to daily and weekly shopping needs of the consumer.

Piramal Group

Pyramid Retail is part of the Piramal Group. The promoters launched the apparel business in 1999 under Pyramid Retail and Merchandising Pvt. Ltd. (PRMPL) while its food, home & personal care businesses (FHPC) were housed under Crossroads
Shoppertainment Pvt. Ltd. (CSPL). Pyramid also has a smaller format of stores called TruMart that caters to Food and Personal Care products.

**K Raheja Group**

Shoppers’ Stop, promoted by the real estate group K Raheja, was one of the first movers to have set up a large retail outlet in New Delhi with international ambience. Shopper’s Stop Ltd now has a considerable presence all over the country with over 7 lakh square feet of retail space and stocks over 200 brands of garments and accessories.

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<tr>
<th>2.4 Growth Drivers of Organized Retail in India</th>
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<td>At present organized retail in India is at a blossoming stage buts it growth is at a scorching pace.</td>
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The key drivers that will sustain this growth can be categorized as:

- **Consumer or Demand-side drivers**
- **Retailer or Supply-side drivers**

**2.4.1 Consumers or Demand-side Drivers**

1. **Very Low share of organized retailing in India** – According to the 10th Annual (2011) Global Retail Development Index (GRDI) of AT Kearney, Organized retail accounts for only 7 percent of India’s roughly $435 billion retail market. This act as an opportunity for the corporate giants to tap the market and offers encouraging prospects for the modern retail.

2. **Changing consumption patterns**- With the rising income levels as more earnings being brought home by both the working partners, the Indian middle class spending has increased substantially in the past few years. Rise in the nuclear families and hefty pay packages led to high disposable income and ultimately high consumer aspirations. People are now quality and brand conscious and are smart shoppers.

3. **Increasing awareness of Indian consumers**- With the technological advancements, use of internet, increasing literacy, global exposure, satellite television, foreign
magazines etc. there is a significant increase in consumer awareness among the Indians. Today consumers are becoming more and more selective with regards to the quality of the products/services.

4. Rising disposable income of Indian middle-class - The Indian middle-class can be categorized into seekers and strivers, which is the consuming class and the prime target segment for retailers in India. In 2005, these two categories together constituted around 6.4 per cent of total households in India but accounted for 20 per cent of the disposable income. By 2015, the middle class is expected to constitute around 25 percent of total households and account for 44 per cent of the total disposable income, and by 2025, the respective figures are likely to go up to 46 per cent and 58 per cent. The Indian middle-class population and their growing disposable income levels will drive the future growth of organized retail in India.

5. Personal consumption as a percentage of GDP - India is second in personal consumption as a percentage of GDP. Robust growth of Indian economy has resulted in increase in personal consumption as a percentage of GDP. According to IMA, India had one of the highest personal consumption as a percentage of GDP in Asia at around 55 per cent in 2007. This signifies well for Indian retail as with per capita income growing, this personal consumption would translate into higher retail sales.

6. Plastic money becoming a greater pie of credit: The higher penetration of credit cards in India has also boosted the growth of the organized retail sector. The young population’s increasing fancy for plastic money has further fuelled their purchasing power. Even though the organized retail sector is at a nascent stage, it is growing at a rapid pace. Moreover, the spurt in issuance of credit cards and loans by both Indian as well as foreign banks has further boosted the segment’s growth.

7. Increase in working population - India is the second-largest country in the world in terms of population and is the largest consumer markets in the world owing to its favorable demographics. In 2008 India’s working population (in the 15-49 years of age group) constituted around 53 per cent of the population as compared with 48.6 per cent
in UK, 49 per cent in US, and 53 per cent in Russia. Further, increase in the number of working women has fuelled the growth in sales of discretionary items.

8. The untouched Rural markets- As majority of India lives in villages and this huge market is still untapped and the Indian retail companies are realizing this fact. Retailers like ITC introduced Chaupal Sagar, DCM Sriram has come up with Haryali Bazaar and Tata entered in rural market as Kisan sansar. This paved the way for other players in retail to enter into the rural markets.

9. The Retail reforms- The government has allowed 100 percent FDI in the cash and carry format and the approval of 100 percent FDI in single brand retailing has raised hopes for the organized retail sector in India, although, 51 percent FDI in multi-brand retailing is kept on hold. The International players can now have their wholly owned outlets in India. This will eventually lead to the growth of organized retailing in India.

2.4.2 Retailers or Supply side Drivers

1. Tier-II and III cities to fuel future growth of modern retail- Initially the retail revolution began in the big tier I cities in India; however, as tier I cities are relatively saturated now, retailers are finding their way to smaller tier II and tier III cities as well. The changing landscape of the Indian retail segment and the increasing competition has also forced retailers to tap growth opportunities in tier II and III cities in India.

2. Availability of quality real estate- Mall space in India has grown from a meagre 1.0 million square feet in 2002 to about 57.3 million square feet by the end of 2008; tier I cities are expected to account for around 73 percent of the mall space and the rest is likely to be equally divided between tier II and tier III cities.

3. Shortened supply chain benefits consumers- A traditional supply chain in India comprises 5-6 levels from Wholesaler to Sub-Wholesaler to the Distributor to the local Mom and Pop stores to the Consumers. Two major disadvantages of this supply chain are as follows:
Cost of the product increases at every stage of the Supply Chain resulting in increase in the price of the products due to cascading effect.

Increase in shrinkage at every stage of the supply chain results in loss of goods for consumption.

### 2.5 Challenges to Organized Retail in India

**Real estate – Availability and high rental costs**

As the real estate prices skyrocketed, retail rentals touched unsustainable levels eating directly into the profit margins of retailers. The real estate cost for the Indian organized retailers are 8-20% of sales compared to 3-4% for the retailers in other countries. This adversely affects the profitability of organized retailers, especially smaller retailers. As the figure shows increasing rental cost has questioned profitability at an increasing rate.

#### Figure 2.5: Organized Rental cost in comparison to profit margin

![Rentals eating into profit margin of retailers](image)

This is a result of combination of several factors including the following:

- Most Indian cities suffer from poor city planning that has not provided for enough commercial space, resulting in high speculative real estate prices.
- The stamp duty rates in India (5-14%) are among the highest in the world.
Over reliance debt funding

The rapid expansion in retail space was largely debt funded. This has resulted into substantial leverage which has added in retailers financing risks. The declining interest coverage clearly indicated that a large number of retailers are highly leveraged and are battling high interest payment as shown in the figure below.

Figure 2.6: Interest coverage ratio declining across players

[Bar chart showing interest coverage ratio declining across players from 2005 to 2008]

Improperly developed malls

Quite a few of the malls are developed with the idea of selling off the retail space, rather than managing it on a long-term basis. In most cases, the space is sold to the highest bidder without paying much attention to the mix of retailers who occupies the mall. As a result, there is a fair possibility that such malls may not become destinations of choice because of poor retailer mix. And the concept of mall management is not appropriate. Most of the mall developers do not follow a scientific method of selecting the retailer mix before the construction begins. As a result, the level of utilities available in such malls may be far lower than what is required by the traffic generated by the retailers in these malls, resulting in severe pressure on the mall infrastructure.
Underdeveloped supply chain

The supply chain infrastructure in India is, however, still quite underdeveloped. Retailers of food and groceries have not yet invested enough in setting up a cold chain system, hence, there is enormous wastage. Moreover, there is a very low level of automation in the supply chain and point of sale systems. There is little real-time link between suppliers, warehouses, and retail stores. Non-uniform VAT regime, multiple points of taxation, taxes like octroi and entry tax in some states prevent development of optimal supply chain models are acting as deterrents for organized retailing.

Inadequate human resources

The retail industry is manpower intensive. Countries with high penetration of modern retail employ 10-12% of their workforce in retailing. Given India’s large working population, the issue is not shortage of manpower, but competency gaps exist because of absence of vocational training facilities for the organized retail sector. There is a significant shortfall of resources trained in retail specific skills sets, including supply chain management, merchandising, vendor management, facilities management, customer relations, and branding. This has resulted in high attrition rates and rising people expenses, hindering aggressive ramp-up of most retailers. Attracting, training and retaining good staff continues to be a major challenge.

Protests against organized retailers

Thousands of traders, hawkers, farmers, and workers were protesting against the entry of large domestic corporations like Reliance, Spencer’s, and foreign players like Wal-Mart into the retailing space. These protests were on the back of the belief that the entry of the corporations into the retail sector would negatively impact the livelihood of the intermediaries and the traders, who form a large share of the society.
As per the Cartesian Economic Meltdown Survey 2008, almost all key industries in India have been negatively impacted by the slowdown and retail is no exception. The retail sector registered decent growth during that phase, but heavy investments made during the boom period may make it difficult for retailers to show profits.

**Challenges identified by Deloitte - Recession research report, 2009**

*Industry is facing “The slow thaw of credit”:* Business finance was under new stresses on several fronts. It was predicted that with the risk assumptions of asset-based financing vehicles fundamentally changed by the recession, the criteria for access to reasonable credit and financing would likely continue to be more restricted in the future. And as most retailers require significant financing to support the working capital requirements of their business model, there would be a need to think through the strategy, timing, and positioning of financing their business growth in the future. It was a critical time for retailers to examine the financing cycle and refinancing requirements in the context of future business plans.

*Volatility—the new “normal”:* Deloitte found that during the recession, volatility and uncertainty played a part in day-to-day decision-making. Post-recession, retailers would need to continue to manage in an environment that has increased potential for game-changing uncertainty.

**Challenges identified by Ficci - Recession research report, 2008**

Ficci in their report Change of guard: Forceful action during recession, identified major actions taken up by Aditya Birla retail and Subhiksha Retail to face the challenges laid down during recession. Aditya Birla group appointed Thomas Varghese as the new Chief Executive Officer replacing Mr. Sumant Sinha. The move came at a time when the retail sector had slowed down due to high real estate costs and lesser purchasing power with the consumers. Subhiksha Retail appointed Mr. K.V. Ramachandra former managing director of Korean Confectionary major Lotte India corporation limited, as
senior president at subhiksha retail to guard the consumer electronics and appliances in the difficult time of slowdown

> **Challenges identified by KPMG-Recession research report, 2009**

KPMG in its report India Retail: A Time to Change Lane highlighted the downfalls into organized retail identified that the last quarter of 2008 was impacted by the economic slowdown and liquidity crunch. Given the industry’s changing landscape and emerging challenges, the focus of industry players started changing. They identified and classified the impact of recession on Indian retail industry on few basic parameters which is shown below

**Figure 2.7 : Impact of slowdown on key parameters of Indian retail sector**

The above figure shows that Stock turns, store expansion, working capital, recruitment, cost of finance, advertising spends and due to this bottom line availability were greatly affected by recession.
The above analysis foresaid the challenge in front of organized retail by showing dropdown in retail penetration which was expected to grow by 16% by 2012 from the 5.6% share and it had been revised to touch 10.4% only.

KPMG found that, during recession large number of retailers experienced a drop in footfalls which in turn impacting the time to break even for new stores. Although retailers tried their best to combat this slowdown through constant promotional offers and deep discounts, consumers are expected to cut down on their discretionary spending.

Source: KPMG analysis and retailers association of India analysis, 2009.

Figure 2.9: Liquidity scenario under pressure due to slowdown

Source: KPMG Report (2009), “Indian Retail - Time to change lanes”
As per the above figure, the slowing sales were resulting in lower inventory turnover and increasing working capital requirements for retailers. This in turn resulted in liquidity pressures for many retailers. To free the cash that had been locked, a large number of companies had been trying to reduce the inventory on their books and shorten working capital cycles.

**Margin Contraction**
Retailers had been trying to compensate for falling sales by curtailing expenses. This had countered the effect of the topline on operating margins leaving it largely unaffected. However, with working capital requirements and expansion capital being financed through sizeable debt, interest costs had significantly dented the bottomline.

**Funding Constraints**
A large number of retailers were highly leveraged and relied on fresh equity funding for growth which was difficult to come by in the recession phase. Banks were increasingly hesitant to finance retailers in the context of falling demand and low profitability. Working capital requirements had also been difficult to meet as 60 percent of KPMG’s survey respondents confirmed the drying up of credit. The organized retail space was expected to receive investments to the tune of USD 25 billion over the next 4-5 years as per KPMG’s report. However significant delays in retail real estate development and opposition to organized retail had resulted in delays in investment.

*Realization of mistakes by Retailers during recession, According to KPMG survey*
KPMG in its survey during recession revealed the following mistakes admitted by retailers,

**Crowding in unattractive locations**
Reason for slow growth in organized retail was poor choice of locations. Clustering was a common theme in retail in India and retail malls appeared wherever real estate was available rather than where they were actually needed. This had resulted in attractive city centers being devoid of malls and newly developed areas having too many.
Indian consumers presented optimistic purchase behavior till 2007 – Brought opportunity

Saving for the long-term has always been a high priority for the Indian consumer. A changing landscape in India has changed spending habits. Recently, life’s pleasures have gained importance among consumers and are on a par with saving for children’s education. The new Indian consumer is definitely more materialistic. The Indian consumer base’s needs include global, glocal, and local products. While there is a growing demand for luxury goods and international brands, these consumers are not only enamored by products from foreign retailers, but also by local goods provided by the Indian retailers. The exposure to American television shows and family residing in the USA has exposed Indian consumers to various foreign brands.

Indian consumers started laying pessimistic behavior post 2007 – Brought challenges

Pragmatic, cautious consumers: Consumer values were going through both a cyclical change and a longer-term permanent shift. The unrealistic optimism of the period of growth most likely got replaced by a new pragmatism and caution about the future. Just as the generation that lived through the Great Depression carried the values established during those years throughout their entire lifetime, consumers’ reactions to the effects of this recession would likely to yield new patterns of behavior and relationships.

Reduction in basket size: Recession hit, Rising inflation had lower consumer spending and as a result the main engine of economic growth had devoured profit margins and sales were also expected to fall. The reduced purchasing power of Indian consumers in the presented situation had revved up competition among shopping malls.
New set of values developed by consumers: Consumers were demonstrating a taste for longer term value and were integrating considerations such as sustainability into their purchasing decisions. This possessiveness of consumers had been found as the reflection of their restrictive spending due to recession.

The same is still in continuation........brining challenges day by day........

 Consolidation and Growth - 2010 onwards

Retail Consolidation and Growth: Indian retail is currently in this phase. In the last two years, most retailers have been closing, relocating or rationalizing unprofitable stores after they found themselves saddled with mountains of inventory and gripped by a cash crunch following hasty expansion. "These retailers have reached their maturity with many stores opened during initial expansion. The issues that make organized retail a high-investment, low-return sector are still unresolved, Retailers are looking at profitable and moderate pace of additions under 10 per cent in FY14 against the range of 15-30 per cent seen in the last two-three years as per India Ratings & Research that has maintained a negative outlook on the retail sector for second half of 2013 posted in economic times.

Despite India's organized retail sector has turned a corner in the year ended March 2013, having managed to reduce losses while substantially increasing sales with a focus on costs by pruning poorly performing locations and resorting to more efficient supply management. Retail chains such as Reliance Fresh of Reliance Industries, Aditya Birla Group's More, Bharti Retail's Easyday and Tata-owned Star Bazaar all posted double-digit sales growth in 2013, reflecting their increasing popularity among shoppers despite economic growth slumping to a 10-year low and consumer price inflation not easing appreciably. According to Economic times based on financial statements for 2012-13 filed with the corporate affairs ministry, the food and grocery retailers listed above saw their combined losses shrink to Rs 1,176 crore from Rs 1,277 crore in the previous year,
while combined sales jumped 34 per cent to Rs 8,770 crore. Excluding Bharti Retail, which was in expansion mode, the sector cut the loss figure by about half.

Thus sun of hope is still rising .............

Considering the challenges faced by the industry at present, retail chains have to focus on consolidations to cut costs and survive in the market with profitability.

Consumerism in India is witnessing unprecedented growth driven by favorable demographics, a young and working population, rising income levels, urbanization and growing brand orientation. This, in turn, is reflected growth in India’s retail market.

Penetration in tier-II and III cities, improvement in business models and operations, coupled with movement from unorganized to organized trade are expected to play an integral role in driving this growth. Furthermore, the liberalization of FDI policy is expected to propel foray of global retailers, which will further fuel the growth of organized retail in India.

However, this growth in organized retail has been achieved at a significant cost. The wave of organized retail started more than a decade ago. However, most players have struggled to achieve the desired level of profitability and returns. Despite high investment of time and capital during this long gestation period, the return from the retail business continues to be a major concern.

In 2014, leading retailers are putting financial goal of profitability on the top of their agenda. At store level, the retailers are focusing on improving store profitability further through productivity enhancement and better inventory management.
**Top themes of growth for organized retailers**

Penetration in tier II and III cities and improvement in business models and operations will be the top themes of growth for the organized sector. Tier-II and tier-III cities are emerging as the new “hot spots” of consumption. Organized retailers need to set up stores in these smaller cities. There is an increasing focus on profitable growth in the sector. Most retailers seem to be focusing on transformation of existing operations rather than introducing new formats. In a nutshell, leading retailers seem to driving the dual themes of expansion and internal improvement for sustainable growth.

**Profit and revenue enhancement feature as the top agenda in 2014**

In light of the various opportunities and challenges faced by the Indian retail sector, retailers are increasingly focusing on balancing expansion with profitability. At the store level, top two focus areas in 2014 for retailers are — driving revenue growth and inventory management. Furthermore, cost rationalization features as the third-most important area.

- **Revenue enhancement:**
  
The focus is on improving productivity from the existing resources such as space, people etc. Retailers are focusing on levers of consumer service and talent retention to improve their productivity.

- **Inventory management:**
  
Retailers are focusing on optimizing inventory turns, investment in inventory and drive freshness in stores.

- **Cost rationalization:**
  
Retailers are continuing their efforts to keep store costs in check.
At the end it can be said that continued volatility of profits is still questioning the survival of organized retailers

Thus,

"Although Indian retail presents several growth opportunities, achieving this growth profitably has been a major concern for leading Indian retailers. Retailers will have to conduct an in-depth evaluation of their business to identify key cost and revenue levers for financial performance improvement."

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