Chapter-I

Introduction

1.1 Introduction to the study

There have been paradigm shifts in shopping patterns and retailing practices across different countries. The consumer psyche, needs and expectations have transformed over the last few decades in India – from Hattis and haats to haute couture and from mela culture to mall culture. Now shoppers look for brands which reflect their personalities, identities and attitudes and at the same time they seek greater value in what they purchase. These transformations are natural for a society which is becoming increasingly globalised. Progress in the retail sector is logical extension of ongoing economic and market reforms in an emerging economy like India. Consumerism is fast becoming a way of life.

Retailing includes all the activities involved in selling goods or services to the final consumers for personal or non-business use. Any organisation selling to the final consumer – be it a manufacturer, wholesaler or retailer – is doing retailing (Kotler and Keller, 2006). It does not matter how the goods or services are sold (by person, mail, telephone, vending machine, or internet) or where they are sold (in a store, on the street, or in the consumer’s home). Retailing is also defined as a set of business activities that add value to the products and services sold to consumers for their personal and family use (Levy and Weitz, 2007). These value-adding activities include providing assortments, breaking bulk, holding inventory, and providing services. As such retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

Retailing thus, may be understood as the final step in the distribution of merchandise for consumption by end consumers. In the complex world of trade today, retail include not only goods but also services that may be provided to the end consumer. In the age where consumer is the king and marketers are focusing on customer delight, retail may be redefined as the first point of customer contact.
For the purpose of research, the organized and unorganized sectors of retail have been defined. According to the National Accounts Statistics of India, the organized sector comprises enterprises for which the statistics are available from the budget documents or reports etc. On the other hand the unorganized sector refers to those enterprises whose activities or collection of data is not regulated under any legal provision or do not maintain any regular accounts (National Account Statistics, 2009). In the context of the retail sector, it could therefore be said to cover those forms of trade which sell an assortment of products and services ranging from fruits and vegetables to shoe repair. These products or services may be sold or offered out of fixed or mobile location and the number of people employed could range between 10 to 20. Thus the neighbourhood kirana, the paanwala, the cobbler, the vegetable or fruit vendor etc. would be termed as the unorganized retail sector. The primary purpose of defining the scope of the unorganized sector is to understand the formats or the forms of trade that would be termed as ‘unorganized’ and therefore, to further the understanding of the term ‘organized retail’.

Organized retail may be defined as any organized form of retail or wholesale activity (both food and non-food under multiple formats), which is typically a multi-outlet chain of stores or distribution centres run by professional management. The organized retail trade sector comprises establishments that are primarily engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise.

Every business has its distinctive way of organizing the activities that are involved in delivering its products and service to the end customer. In retail parlance, it is termed as retail format. The term retail format had been used under several contexts in the retailing literature. From a more general perspective, it would simply mean the offer of a retailer manifested in terms of the public presentation of its offered goods and services.

However, it can be confusing when the same retailer is portrayed under more than one format categories. For instance, Wal-Mart is described as a ‘Discount store operator’, ‘Hypermarket’ and ‘Power centre’. The same would hold true for Big Bazaar in the Indian retail market. A more usable definition of retail format is that of a physical embodiment of a retail business model: the framework that relates the firm’s activities to its business context and strategy (Reynolds, Howard, Cuthbertson, and Hristov, 2007). Such business model would entail the
retailer’s key resource and process mix aligned with their segmentation, targeting and positioning strategies. A retail format may also be defined as the mix of variables that retailers use to develop their business strategies and constitute the mix as assortment, price, transactional convenience, and experience (Messinger and Narsimhan, 1997). Retail format is also denoted as a type of retail mix used by a set of retailers (Levy and Weitz, 2007).

The recent interest in retail formats is mainly attributed to innovations in the mix that the retailers are coming up with, owing to the competition. With the retail industry in India coming forth as one of the most dynamic and fast paced industries, choice of an appropriate retail format seems to be the key to success. However the choice of retail format is clogged with a lot of indefiniteness. One of the retail studies found Supermarkets, as the most promising format for our country (KPMG, 2007). On the contrary, another study found that Hypermarkets will arise as winners amidst this stiff competition (FICCI, 2007).

The total concept and idea of shopping has undergone an attention drawing change in terms of consumer buying behavior being related to a retailer’s choice of format. Nevertheless, challenge lies in retailer’s understanding of customer’s needs and motivations, and most importantly, such parameters and perceptible dimensions of shopping experience which are considered important by consumers when they evaluate the performance of a retail store.

1.1.1 Evolution of Retail

Some of the landmarks in the advancement of retail as an industry are:

**Early trade**

When man started to cultivate and harvest the land, he occasionally found himself with a surplus of goods. Once the needs of his family and local community were met, he would attempt to trade his goods for different goods produced elsewhere. Thus, markets were formed. These early efforts to swap goods developed into more formal gatherings. When a producer who had a surplus could not find another producer with suitable products to swap, he allowed others to owe him goods. Thus early credit terms were developed. This led to
symbolic representations of such debts in the form of valuable items (such as gemstones or beads), and eventually money.

The earliest traders were Cretans who sailed the Mediterranean and carried on trade with the people of that area. They flourished for 2000 years. The Phoenicians followed the Cretans as civilization’s major traders. They distributed the goods of Egypt and Babylonia. This group was in turn succeeded by the Romans. The Romans were the creator of modern form of retailing (Byrd, 2001).

Peddlers and Producers

The Retail Trade is rooted in two groups, the peddlers and producers. Peddlers tended to be opportunistic in their choice of stock and customer. They would purchase any goods that they thought they could sell for a profit. Producers were interested in selling goods that they had produced.

General Store

This division continues to this day with some shops specializing in specific areas, reflecting their origins as outlets for producers (such as ‘Pacific Concord’ of Hong Kong), and others providing a broad mix, known as General Store (such as ‘Casey's’ in the Midwest of the U.S.A.). Although specialist shops are still there, over time, the general store has increasingly taken on specialist products. Customers have found this to be more convenient than having to visit many shops, thus the term ‘Convenience Store’ has also been applied to these shops. As the popularity of general stores has grown, so has their size. This combined with the advent of self-service has lead to the development of Supermarket, or Superstore.

Early Markets

Over time, producers have seen value in deliberately overproducing in order to gain profit from selling these goods. Merchants have also begun to appear. They travelled from village to village, purchasing these goods and selling them for a profit. Over time, both producers and merchants regularly take their goods to one selling place in the centre of the community.
Thus, regular markets appeared. Eventually, markets became permanent fixtures i.e. shops. These shops along with the logistics required to get the goods to them were, the start of the Retail Trade.

**The Birth of Distance Retailing**

It is defined as sales of goods between two distant parties, where the deliverer has no direct interest in the transaction. The earliest instances of distance retailing probably coincided with the first regular delivery or postal services. Such services would have started in earnest, once man had learned how to ride a camel or a horse etc.

When individuals or groups left their community and settled elsewhere, they have some missed foodstuffs and other goods that were only available in their birthplace. They arranged for some of these goods to be sent to them. Others in their newly adopted community enjoyed these goods and demand grew. Similarly, new settlers discovered goods in their new surroundings that they dispatched back to their birthplace, and once again, demand grew. This soon turned into a regular trade. Although such trading routes expanded mainly through the growth of travelling salesmen and then wholesalers, there were still instances where individuals purchased goods at long distance for their own use. The second reason for the increase in distance selling was through war. As armies marched through territories, they laid down communication lines stretching from their home base to the front. As well as garnering goods from whichever locality they found themselves in, they take advantage of the lines of communication to order goods from home.

**The First Self-Service Store**

This all changed in 1915 when Albert Gerrard opened the ‘Groceteria’, the first documented self-service store in Los Angeles. This was soon followed a year later by the ‘Piggly Wiggly’, a self-service store, founded by Clarence Saunders in Tennessee in the U.S. This new type of shopping was more efficient and many customers preferred it. Although personal service stores remain to this day, this new concept started a rapid growth of self-service stores in the United States. Other countries were slow to take up the idea, but there has been a steady rise in the global amount of self-service stores ever since.
From Family Business to Formal Structure

Although retail chains were mostly run by families, as chains grew, they needed to employ people from outside of their family. This was a limiting factor as there was a limit to the amount of trusted non-family members available to help run the chain. Another, even more definite limiting factor was the distance the farthest shop was from the original shop. The greater the distance, the more time and effort needed to effectively manage outpost shops and to service them with goods. There was, therefore, a natural barrier to expansion. That was the case until transport and communications became faster and more reliable. When this happened towards the end of the 19th century, chains became much bigger and more widespread. Many of these businesses became more structured and formalized, leading to the retail chain that we see today.

1.2 Global Retail Scene

Retail has played a major role world over in increasing productivity across a wide range of consumer goods and services. The impact can be best seen in countries like USA, UK, Mexico, Thailand, and more recently China. Economies of countries like Singapore, Malaysia, Hong Kong, Sri Lanka, and Dubai are also heavily assisted by the retail sector. Retail is the second-largest industry in the United States both in number of establishments and number of employees.

According to Deloitte Global Powers of Retailing 2011, the top 25 retail companies of the world originate mainly from heavily populated countries such as the United States, Germany, UK, Japan, and France (Table 1.1).

1.2.1 Globalisation of Retail

There has been an increasing globalisation of retailing over the recent period. As home markets have become crowded and with rising opportunities in emerging markets, modern retailers from developed countries have been turning to new markets.
Table 1.1: Top 10 retailers of the world (in sales revenue) in 2010

<table>
<thead>
<tr>
<th>Rank</th>
<th>Origin of company</th>
<th>Name of company</th>
<th>Formats</th>
<th>Retail sales in 2010 (US $ million)</th>
<th>CAGR Fiscal 2005-2010 (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>US</td>
<td>Wal-Mart</td>
<td>Discount, Hypermarket, Supermarket, Superstore, Warehouse</td>
<td>405,04</td>
<td>7.3</td>
</tr>
<tr>
<td>2</td>
<td>France</td>
<td>Carrefour</td>
<td>Cash and Carry, Convenience, Discount, Hypermarket, Supermarket</td>
<td>119,887</td>
<td>3.4</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>Metro</td>
<td>Cash and Carry, Department, Hypermarket, Specialty, Superstore</td>
<td>90,850</td>
<td>3.0</td>
</tr>
<tr>
<td>4</td>
<td>UK</td>
<td>Tesco</td>
<td>Convenience, Department, Hypermarket, Supermarket, Superstore, Specialty</td>
<td>90,435</td>
<td>10.9</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>Schwarz</td>
<td>Hypermarket, department</td>
<td>77,221</td>
<td>9.8</td>
</tr>
<tr>
<td>6</td>
<td>US</td>
<td>Kroger</td>
<td>Convenience, Discount, Specialty, Supermarket, Warehouse</td>
<td>76,733</td>
<td>6.3</td>
</tr>
<tr>
<td>7</td>
<td>US</td>
<td>Costco</td>
<td>Warehouse</td>
<td>69,889</td>
<td>8.2</td>
</tr>
<tr>
<td>8</td>
<td>Germany</td>
<td>Aldi</td>
<td>Discount</td>
<td>67,709</td>
<td>6.3</td>
</tr>
<tr>
<td>9</td>
<td>US</td>
<td>Home Depot</td>
<td>Speciality</td>
<td>6,617</td>
<td>-2.0</td>
</tr>
<tr>
<td>10</td>
<td>US</td>
<td>Target</td>
<td>Speciality</td>
<td>63,435</td>
<td>6.8</td>
</tr>
</tbody>
</table>

The retail sales from foreign operations by top 250 retailers across the globe declined from 22.9 percent in 2008 to 22.2 percent in 2009. This decline in sales indicated that the right avenue for global expansion is still a tricky business. European retailers were found to be most international, with more than one-third of their 2009 sales from operations outside their home country. In contrast, North American retailers accounted for only 13.3 percent of total retail sales from foreign operations. As far as top 250 retailers in Asia-pacific region were concerned, nearly 60 percent had yet to expand beyond their home country in 2009 (Deloitte, and Stores Media, 2011).

Table 1.2: Retail sales by Foreign Operations in 2009

<table>
<thead>
<tr>
<th>Region/country</th>
<th>No. of companies</th>
<th>Avg. 2009 retail sales(US $mil)</th>
<th>Average no. of countries 2009</th>
<th>% Retail sales from foreign operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa/Middle</td>
<td>8</td>
<td>4,858</td>
<td>8.5</td>
<td>8.7</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>46</td>
<td>10,267</td>
<td>3.5</td>
<td>10.5</td>
</tr>
<tr>
<td>Japan</td>
<td>32</td>
<td>9,235</td>
<td>2.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Europe</td>
<td>92</td>
<td>16,507</td>
<td>13</td>
<td>36.5</td>
</tr>
<tr>
<td>France</td>
<td>13</td>
<td>28,620</td>
<td>29.1</td>
<td>41.3</td>
</tr>
<tr>
<td>Germany</td>
<td>19</td>
<td>23,046</td>
<td>13.7</td>
<td>41.6</td>
</tr>
<tr>
<td>U.K.</td>
<td>15</td>
<td>17,282</td>
<td>10.7</td>
<td>21.9</td>
</tr>
<tr>
<td>Latin America</td>
<td>10</td>
<td>5,868</td>
<td>1.9</td>
<td>12.0</td>
</tr>
<tr>
<td>North America</td>
<td>94</td>
<td>17,820</td>
<td>5.1</td>
<td>13.3</td>
</tr>
<tr>
<td>U.S.</td>
<td>84</td>
<td>18,851</td>
<td>5.5</td>
<td>13.3</td>
</tr>
</tbody>
</table>


### 1.2.2 Emerging Retail Markets

Globally, the past decade has been one of turmoil and transition in the world of retail. Some economies roared ahead and then rebounded, competition heated up and consumer spending cooled down.
The global retail sector headed for a slow down with economic recession becoming the reality in many economies of the world. Fiscal year 2008-2009 (encompassing fiscal years ending June 2009) brought economic hardships with significant implications for the retailers. Growth in developed markets dried up as consumers faced a collapse in real estate prices, job uncertainty, a drastic drop in income, and asset values. It resulted into reduced spending across all retail segments. However, retailers selling food and other necessities fared considerably better.

Global recession affected retailers' bottom line. Two-third of the 184 retailers who disclosed their bottom-line results saw their net profit margin decline in 2009. The number of US companies in the top 250 and their share in their collective sales of top 250 retailers continued to drop in 2009. The Asia-pacific region posted above-average composite retail sales of 7.3 percent in 2009. Many of the Chinese retailers continued to grow at double-digits rates in 2009. Japan represented the second largest group of retailers by country of origin after United States. Following several years of decline, Japan’s share of top 250 companies and sales rebounded in 2009. Composite retail sales jumped to 26.3 percent for Latin America’s top 250 retailers. All six top 250 retailers from the Africa/Middle East region also continued to perform well above average in 2009 ((Deloitte, and Stores Media, 2011).

A.T. Kearney (Global Retail Development Index, 2010) 9th annual ranking of 30 emerging countries of the world also showed high growth of retail activities in developing countries than developed countries of the world.

Table 1.3: Global Retail Development Index (GRDI) 2010

<table>
<thead>
<tr>
<th>Rank 2010</th>
<th>Region</th>
<th>Market attractiveness (25%)</th>
<th>Country risk (25%)</th>
<th>Market saturation (25%)</th>
<th>Time pressure (25%)</th>
<th>GRDI Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>50.6</td>
<td>85.8</td>
<td>32.9</td>
<td>86.6</td>
<td>64.0</td>
</tr>
<tr>
<td>2</td>
<td>Kuwait</td>
<td>75.4</td>
<td>94.3</td>
<td>56.2</td>
<td>24.5</td>
<td>62.6</td>
</tr>
</tbody>
</table>

Continued...
<table>
<thead>
<tr>
<th>Rank 2010</th>
<th>Region</th>
<th>Market attractiveness (25%)</th>
<th>Country risk (25%)</th>
<th>Market saturation (25%)</th>
<th>Time pressure (25%)</th>
<th>GRDI Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>India</td>
<td>35.4</td>
<td>51.3</td>
<td>62.2</td>
<td>97.8</td>
<td>61.7</td>
</tr>
<tr>
<td>4</td>
<td>Saudi Arabia</td>
<td>65.3</td>
<td>86.5</td>
<td>50.7</td>
<td>31.0</td>
<td>58.4</td>
</tr>
<tr>
<td>5</td>
<td>Brazil</td>
<td>73.5</td>
<td>74.3</td>
<td>46.6</td>
<td>36.9</td>
<td>57.8</td>
</tr>
<tr>
<td>6</td>
<td>Chile</td>
<td>71.8</td>
<td>92.3</td>
<td>27.5</td>
<td>38.3</td>
<td>57.5</td>
</tr>
<tr>
<td>7</td>
<td>United Arab Emirates</td>
<td>79.1</td>
<td>100</td>
<td>18.8</td>
<td>32.0</td>
<td>57.5</td>
</tr>
<tr>
<td>8</td>
<td>Uruguay</td>
<td>67.7</td>
<td>74.3</td>
<td>58.6</td>
<td>23.1</td>
<td>55.9</td>
</tr>
<tr>
<td>9</td>
<td>Peru</td>
<td>43.4</td>
<td>54.6</td>
<td>72.2</td>
<td>49.2</td>
<td>54.9</td>
</tr>
<tr>
<td>10</td>
<td>Russia</td>
<td>63.5</td>
<td>55.1</td>
<td>32.0</td>
<td>61.8</td>
<td>53.1</td>
</tr>
<tr>
<td>11</td>
<td>Tunisia</td>
<td>45.3</td>
<td>77.1</td>
<td>61.3</td>
<td>26.3</td>
<td>52.5</td>
</tr>
<tr>
<td>12</td>
<td>Albania</td>
<td>30.4</td>
<td>30.2</td>
<td>82.2</td>
<td>61.7</td>
<td>51.1</td>
</tr>
<tr>
<td>13</td>
<td>Egypt</td>
<td>30.9</td>
<td>45.5</td>
<td>85.7</td>
<td>41.6</td>
<td>50.9</td>
</tr>
<tr>
<td>14</td>
<td>Vietnam</td>
<td>12.3</td>
<td>49.4</td>
<td>50.2</td>
<td>89.1</td>
<td>50.2</td>
</tr>
<tr>
<td>15</td>
<td>Morocco</td>
<td>31.8</td>
<td>60.6</td>
<td>56.0</td>
<td>46.9</td>
<td>48.8</td>
</tr>
<tr>
<td>16</td>
<td>Indonesia</td>
<td>40.9</td>
<td>46.6</td>
<td>59.9</td>
<td>47.5</td>
<td>48.7</td>
</tr>
<tr>
<td>17</td>
<td>Malaysia</td>
<td>54.9</td>
<td>67.5</td>
<td>15.6</td>
<td>48.9</td>
<td>46.7</td>
</tr>
<tr>
<td>18</td>
<td>Turkey</td>
<td>64.6</td>
<td>52.5</td>
<td>40.5</td>
<td>28.9</td>
<td>46.6</td>
</tr>
<tr>
<td>19</td>
<td>Bulgaria</td>
<td>49.7</td>
<td>60.8</td>
<td>18.8</td>
<td>56.7</td>
<td>45.6</td>
</tr>
<tr>
<td>20</td>
<td>Macedonia</td>
<td>41.7</td>
<td>28.0</td>
<td>60.8</td>
<td>52.2</td>
<td>45.6</td>
</tr>
<tr>
<td>21</td>
<td>Algeria</td>
<td>26.1</td>
<td>21.3</td>
<td>96.0</td>
<td>38.2</td>
<td>45.4</td>
</tr>
<tr>
<td>22</td>
<td>Philippines</td>
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<td>35.6</td>
<td>72.7</td>
<td>37.0</td>
<td>45.2</td>
</tr>
<tr>
<td>23</td>
<td>Dominican Republic</td>
<td>41.2</td>
<td>27.4</td>
<td>69.8</td>
<td>35.4</td>
<td>43.5</td>
</tr>
</tbody>
</table>

Continued...
According to this ranking, some of the emerging retail markets in the world are:

**Asia-Pacific**

China and India remain the leaders among best retail destinations. These large and growing markets still present the major retail opportunities. While opportunities remain in large cities of both the countries, retailers are also expanding to smaller but fast-growing cities. Retailers are strengthening supply chain operations to spur profitable growth while refining merchandising capabilities and internal organisations to take advantage of their scale. Throughout Asia-Pacific, the post-recession outlook is bright, with increasing domestic demand, exports stabilizing, retail sales boost, and improving consumer confidence. Aggressive expansionary fiscal and monetary policies further bolster retail. Grocery still accounts for almost two-thirds of the total organized retail sales, but the proportion of spending on Food is declining annually as consumers increase discretionary spending on clothing, transportation, communication, appliances, and recreation. Hypermarkets and Convenience stores are the formats of choice but the competition is fierce.
**Middle East and North Africa** (including Kuwait, Saudi Arabia, UAE, Tunisia, Egypt, Morocco, and South Africa)

Middle East and North Africa region exhibited most exciting retail opportunities in 2010. The impact of downturn varied, as fiscal stimulus had offset the damage. Overall the region has proven resilient and is recovering fast. Retail sales have been rising, driven by high disposable incomes, urban population growth, a strengthening middle class, and infrastructure investments. New regional and international brands have been rushing in. Local retailers such as Saudi Arabia’s ‘Panda’ and ‘EMKE Group’ from the United Arab Emirates (UAE) have begun expanding.

**Latin America** (including Brazil, Chile, Uruguay, Peru, Mexico, and Colombia)

Retailers in Latin American countries embraced trends towards organized retail formats owing to higher personal incomes and an improving business environment that is drawing in foreign investors. Intra-region expansion remained popular as local leaders enter other Latin American markets.

**Eastern and Central Europe** (including Russia, Albania, Bulgaria, Macedonia, Romania, Bosnia, and Herzegovina)

Russia remained at the forefront of retail activities in Eastern Europe. Schwarz Group’s ‘Aldi’ Discount chain purchased ‘The Plus’ Discount stores of Bulgaria and Romania, and Slovenian chain ‘Mercator’ has expanded to Albania, Bulgaria, and Montenegro. Growth opportunities in Eastern Europe have remained immense, but instead of ‘one-size-fits-all’ approach, a customized approach is required.

### 1.2.3 Retail Scenario in BRIC nations

Although the BRIC nations (Brazil, Russia, India, and China) accounted for more than 42 percent of world’s population, their economies accounted for only 26 percent of world’s GDP in 2010 (CIA Factbook, 2010). But these countries had achieved 7 percent annual growth rate in the year 2010 and are projected to maintain the pace. The BRIC nations clearly outpaced
not only the developed world, but other emerging markets like Vietnam, Malaysia, Ukraine, and Argentina. Given the recent spate of economic reforms in these countries and limited investment options in developed world, the BRIC nations are clearly in for long spell of sustained growth.

**Figure 1.1: Real GDP growth rate in BRIC and Developed countries (2003-2010)**


The major socio-political challenge that the BRIC economies must overcome as they make transition to organized retail is that the large retail outlets will bring low prices to customers and increase the potential of one-stop shopping. The millions of mom and pop stores will have to evolve to provide enhanced customer-centric offerings or face significant risk.

With the increased investment in these countries, the supply chain and other infrastructure supporting the retail industry are rapidly being upgraded. India alone is expecting an investment of US$ 30 billion in retail related infrastructure sector alone in the next five years (A. T. Kearney, 2010). The market is ripe for large retailers to establish their supply chains, drive efficiencies and increase consolidation across the industry.
BRIC consumers are changing their purchasing habits and patterns to drive organized retail growth in these countries. These consumers are demanding more choices in shopping destinations such as Malls, Supermarkets, and Hypermarkets etc. and in sophisticated merchandise including established brands together with a customer-friendly shopping experience. Easy accessibility of credit-lines is spurring further growth in these retail markets – the Chinese credit card market had achieved more than US$ 3billion in annual revenues in 2010 (A. T. Kearney, 2010). Traditionally, given the low income levels in the BRIC countries, credit was a necessity and with no robust financial markets, it was provided by small scale inefficient sources like money lenders.

Thus across the opportunities in global retail landscape, the BRIC countries are undisputedly shaping up to be tomorrow’s crown jewels.

A brief snapshot of retail activities in BRIC nations is as follows:
Brazil

By 2010, Brazil’s population had reached around 186 million, the fifth largest in the world. The Brazilian population is predominately young with more than 60 percent under the age of 29 years. Consumer spending has increased by around 10 percent during 2010, driven by a more stable economic situation and social policies such as increase in the level of the minimum salary promoted by the Government, (CIA Factbook, 2010).

The Brazilian grocery market is consolidating rapidly as Supermarket and Hypermarket chains strive to acquire good locations, achieve economies of scale and increase their leverage with suppliers. However, with no retail group yet accounting for 10 percent of the market and the top 5 still claiming just around 25 percent, there is potential for still greater concentration in future.

Hypermarkets are the main retail format used by the largest grocery retail groups in the country. The Hypermarkets is steadily gaining market shares between the middle and lower classes, as Brazilian consumers value the convenience and money saving while shopping at these stores. The retailers operating in this format are Carrefour, Casino and Wal-Mart. The large chains are now pursuing multi-format strategies encompassing Hypermarkets, Supermarkets, Discount stores, and Convenience stores.

Russia

Despite a shrinking population which has fallen to 139.39 million in 2010, Russia is by far the largest consumer market in Central and Eastern Europe (CIA Factbook, 2010).

Russia’s economy is booming and so is its retail sector. Consumer spending has been rising quickly for the past few years. As a result, the steady stream of foreign retailers continues to enter. Boots, The Body Shop, Lotte, and Marks & Spencer had already entered the retail market in the country. Other retailers, including Tesco, Tengelmann, REWE, and Casino are monitoring the Russian market closely. Some foreign retailers that have been in the market for a few years, such as IKEA and Metro group, are beginning to expand outside the popular markets of Moscow and St. Petersburg.
Local players including Sedimoi Kontient, Perekryostok, Park House, Petrovsky, and Kopeika are expanding aggressively. Some are even investing outside Russia. The cities of Moscow and St. Petersburg account for most of the spending and retail growth – retailers such as Ralph Lauren, Debenhmas and Starbucks are setting up stores in two major cities.

Russia’s food retail market is extremely fragmented, and it is only in the cities of Moscow and St. Petersburg where significant consolidation has taken place. On a countrywide basis, the top five grocers accounted for around 9 percent of the modern grocery distribution in 2010 (A. T. Kearney, 2010).

**China**

China continues to defy its critics with a strong GDP growth; it remained one of the fastest growing economies in the world, with a GDP growth equalling 9.70 in 2010 (CIA Factbook, 2010).

Even with rapid growth over the past several decades, the Chinese retail market remains highly fragmented — the top 100 players accounted for only 11 percent of overall retail sales in 2010. Leading local retailers include formerly state-owned operators, Department store chains and a few new retailers. The leading international retailers generally operate Hypermarkets and have higher average store performance than their local rivals and operations focused on tier-II and tier-III cities are enjoying much faster rates of growth than those in major cities. The major international retailers operating in the country are Carrefour, Wal-Mart and Tesco.

In China, “Wave 1” retailers such as grocers and Convenience stores entered the market from east coast and have begun moving west. Whereas, the “Wave 2” companies which include consumer electronics, do-it-yourself and apparel retailers are a few years behind, but are following the same east-to-west path (A. T. Kearney, 2010).
1.3 Indian Retail Market

The retail sector in India is highly fragmented and composed of mostly owner-run ‘Mom and Pop’ outlets. The entire sector is dominated by small retailers consisting of local kirana shops, general stores, footwear and apparel shops, hand-cart hawkers, and pavement vendors. These together form the ‘unorganized retail’ or ‘traditional retail’. According to the Investment Commission of India (ICI) estimates, there are over 15 million such ‘Mom and Pop’ retail outlets in the country (Knight Frank India, 2010).

1.3.1 Origins of Organized Retail in India

In India, retail has evolved to support the unique needs of the country given its size and complexities. Haats, mandis and melas have always been a part of the Indian landscape. They still continue to be present in most part of the country and form an essential part of life and trade in various areas.

The origin of organized retail in India dates back to the pre-independence era when the country’s established business houses, mostly textile majors, ventured into the retail arena through company-owned or franchisee outlets. There were also exclusive tailoring shops that ultimately expanded their span of operations to become leading fashion retailers – Mumbai’s Charagh Din, Kolkatta’s Burlington, Delhi’s Mohanlal Sons, and Banglore’s P. N. Rao etc.

It is worth mentioning that Southern India took the lead to establish the first organized retail chains in the Food and Grocery segment in India with stores such as Nilgiri’s, Foodworld, Margin Free etc. The consumer durables segment too has its roots in the South with regional players like Vivek’s, Giria’s, Pai International, Vasanth & Co. etc.

As far as the retail space is concerned, the first 500,000 sq. ft. shopping centre from Mangal Tirth Estate called Spencer Plaza came up in 1990. This was followed clearly a decade later by Mumbai’s Crossroad mall (150,000 sq. ft.) from Piramal Holdings and New Delhi’s Plaza (200,000 sq. ft.) and Ansal Properties and infrastructure in 1990 (Cushman and Walkfield, 2010).
As such the ongoing journey of organized retail in India can be classified into four phases:

- Initiation (Pre 1990s)
- Conceptualization (1990-2005)
- Retail expansion (2005-2010)
- Consolidation (2010 onwards)

**Initiation**

The initial evolution of modern retail in India primarily transpired through established textile majors’ forward integration in retail. This phase was essentially dominated by manufacturers establishing their presence in retail. The key players during this era included Bombay Dyeing, The Raymond Group, The S Kumar Group, and Bata. Central and State Governments and Co-operative bodies such as Public Distribution System (PDS), Mother Dairy, Kendriya Bazaar, Super Bazaar etc. played a key role as prominent retailers in the Indian retail market. These early years also saw the emergence of regional chains primarily in the southern region and some of these chains later established a nationwide presence.

Among the major textile houses that made an early mark, Bombay Dyeing finds prominent mention. The Group’s activity goes back to the late years of 1800 when Bombay Dyeing’s cotton yarn was hand dyed. Today Bombay Dyeing has a chain of over 2000 plus Exclusive Brand Outlets (EBO) across India (Bombay Dyeing, 2011). The Raymond Group, set up in 1925, is another textile major that ventured into retailing in the 1950s and eventually became country’s one of the best retailer, with a number of apparel brands in its kitty. Today Raymond has over 2500 stores over 180 cities in India (Raymond India, 2011). Founded in 1948, the S Kumar group represented yet another textile major turned pioneering retail venture of India.

Apart from textile and fashion houses, a number of organized Food and Grocery (F&G) businesses have a long history like Banglore-based F&G chain, Nilgiri’s that started in the early 1990s as the bakery chain, Nilgiri’s Dairy Farm. Today Nilgiri’s is one of the finest retail chains in southern India that works on both company-owned and franchisee store models. Another major F&G player, Foodworld, was the first national chain from the RPG
Group. Despite being a Kolkatta-based business house, the first Foodworld Supermarket was set up in Chennai in 1996.

These remained the only organized retailers in the country for a long time, till the post 1990 period saw a fresh wave of entrants in the retailing business (Cushman and Walkfield, 2010).

Retail Conceptualization

The threshold of the 1990 saw a new beginning in the retailing business. This time it was not the manufacturers looking for an alternative sales channel, but pure-play retailers that have entered in the retail market, to expand pan-India. Main examples are Pantaloon’s Shoppers Stop and Lifestyle. It is interesting to note that most new retailers in this era focussed on apparel and other fashion related categories.

An important occurrence during this time was the liberalisation of Indian economy and opening of entry opportunities for foreign brands/retailers. The first generation of international retailers to make an entry during this phase included McDonald’s, Benetton, Levi Strauss, Adidas, Reebok, and Nike, to name a few (Cushman and Walkfield, 2010).

Retail expansion

This is perhaps the most active phase of Indian retail industry in terms of growth, entry of new players and development of new formats. A growing middle income class, increasing disposable income and young consumer population led to rapid growth of the Indian retail market.

Having realised the vast potential of the relatively untapped domestic market, large industrial conglomerates like Mahindra and Mahindra, Reliance, Tata, Aditya Birla, and Essar entered the Indian retail arena during this period. Most of these groups committed large investment in the retail sector and planned to establish pan-India brand and enjoyed significant success in the years that followed. Their success brought in global retailers such as Metro A. G., Max Retail, Shoprite, HyperCity etc; and more recently Carrefour, Tesco and Zara that announced their Indian entry and are optimistic about their growth in the market. Others like Bharti-
Walmart, SPARS, Debenhams, and Mother Care have already established their presence in the retail market.

Apart from international retailers and large conglomerates, a number of regional players, particularly in the Supermarket segment also geared up for their activity. The period saw the emergence of new formats like Cash & Carry, large format discounters, food courts, multiplexes, children’s play zones, and gaming zones.

On the real estate front, there is frenetic activity with a large number of malls proposed or developed across major metros and upcoming tier-II cities. The size of the malls also went through rapid transformation from average size of 150,000-200,000 sq. ft. to 500,000-1,000,000 sq. ft.

The rapid growth soon attracted the luxury product segment in the environment of economic liberalisation with rise in the purchasing power parity (PPP) index of domestic consumers. The most important categories for luxury goods consumers soon became high-end automobiles, electronics, and other home improvement products, besides fashion, lifestyle and fine dining. Global luxury brands like Hugo boss were selectively available in India from the late 1990s, but till about 2005 these were retailed only through franchisee agreement in the absence of any policy permitting foreign direct investment (FDI) in single brand retail. With the FDI policy 2005-2006 allowing single-brand retailers to take up to 50 percent stake in joint venture with a local firm, the intervening years saw the entry of several premium brands like Versace, Gucci etc. mostly through joint ventures.

One of the main reasons, for luxury retail not taking up in India was the lack of luxury retail environment. There was an evident lack of space for premium brands which led the early entrants to restrict their presence to star category of hotels in big cities only. More recently, exclusive retail space options like The Collection at UB city, Banglore and DLF Emporio in Delhi surfaced apart from appearing in star hotel plazas (Cushman and Walkfield, 2010).

**Retail Consolidation**

The phase now anticipated in the wake of the ongoing global turmoil is one of consolidation. Considering the challenges faced by the industry at present, retail chains are likely to focus
on consolidation to cut costs and survive in the market. In the present scenario, companies are increasingly concentrating on strengthening existing operations while assessing growth option through consolidation (Cushman and Walkfield, 2010).

**Figure 1.3: Expansion of Retail in India**

![Figure 1.3: Expansion of Retail in India](http://www.cushwake.com/cwglobal/isp/kcReportDetail.jsp?Country [Accessed on 14 December 2010].)

### 1.3.2 Growth of Organized Retail

Indian retail sector is now wearing new clothes. Traditional markets are making way for new formats such as Department stores, Hypermarkets, Supermarkets, and Specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience.

In term of total retail sales, one can find a variety of estimates and this definitely reflects lack of sound official Government data related to retail industry. Organized retail in India is
expected to increase from 5 percent of the total market in 2008 to 14-18 percent of the total retail market by 2015 (McKinsey, 2008). As per another estimate, organized retail market in India is expected to reach US$ 50 billion by 2012 (RNCOS, 2008). A recent report estimated that total retail sales are expected to grow from US$ 392.63 billion in first quarter of 2011 to US$ 674.37 billion by 2014 (Business Monitor International, 2010). These figures indicate an immense opportunity for growth of organized retail in India.

**Figure 1.4: Growth of Organized Retail in India**

![Growth of Organized Retail in India](http://www.deloitte.com/assets/Dcom-India/Localpercent20Assets/Documents/Retailpercent20POV_low.pdf)

The most obvious indication of growth of organized retail in India is the rapid rate at which new retail space is being built. During 2010-12, around 55 million square feet (sq. ft.) of retail space is expected to be ready in Mumbai, National Capital Region (NCR), Bengaluru, Kolkata, Chennai, Hyderabad, and Pune. Besides, the organized retail real estate stock is
expected to grow from the existing 41 million sq. ft. to 95 million sq. ft. between 2010 and 2012 (Knight Frank India, 2010).

**Figure 1.5: Percent share of retail space in major cities of India (2009-2010)**


On the flip side, concerns have been raised that the growth of modern retail will have an adverse impact on retailers in the unorganized sector. However, studies had shown that both organized and unorganized retail segments not only coexist but also grow substantially in size (ICRIER, 2008). As a result, it is expected that a positive environment is likely to be prevalent in the economy which would take the organized retail on a high growth trajectory.

The Indian retail sector has caught the world’s imagination in the last few years. India has been ranked as the most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm – A. T. Kearney, in its annual Global Retail Development Index (GRDI) for three years consecutively (from 2004-2007). India was on third position in 9th annual GRDI ranking (A. T. Kearney, 2010).
Table 1.4: India’s ranking in Global Retail Development Index (GRDI) from 2005-2010

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>India</td>
<td>India</td>
<td>Vietnam</td>
<td>India</td>
<td>China</td>
</tr>
<tr>
<td>Russia</td>
<td>Russia</td>
<td>Russia</td>
<td>India</td>
<td>Russia</td>
<td>Kuwait</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Vietnam</td>
<td>China</td>
<td>Russia</td>
<td>China</td>
<td>India</td>
</tr>
<tr>
<td>China</td>
<td>Ukraine</td>
<td>Vietnam</td>
<td>China</td>
<td>United Arab Emirates</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>Slovenia</td>
<td>China</td>
<td>Ukraine</td>
<td>Egypt</td>
<td>Saudi Arabia</td>
<td>Brazil</td>
</tr>
<tr>
<td>Latvia</td>
<td>Chile</td>
<td>Chile</td>
<td>Morocco</td>
<td>Vietnam</td>
<td>Chile</td>
</tr>
<tr>
<td>Croatia</td>
<td>Latvia</td>
<td>Latvia</td>
<td>Saudi Arabia</td>
<td>Chile</td>
<td>United Arab Emirates</td>
</tr>
</tbody>
</table>


In the midst of the unorganized retail sector's strong dominance, some of the major industrial houses have entered into this sector and have announced ambitious future expansion plans. Transnational corporations have also joined hands with big Indian companies to set up retail chains. India's Bharti group joined hands with Wal-Mart, the world's largest retailer and Tata group tied up with the UK based Tesco, the world's third largest retail group.
<table>
<thead>
<tr>
<th>Companies</th>
<th>No. of stores</th>
<th>Time span</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Present Scenario</td>
<td>Future Prospects</td>
</tr>
<tr>
<td>Pantaloon Retail India Limited</td>
<td>1000 stores in 71 cities</td>
<td>25-30 stores</td>
</tr>
<tr>
<td>Shopper’s Stop</td>
<td>27 stores</td>
<td>15 stores</td>
</tr>
<tr>
<td>Spencer’s</td>
<td>220 stores in 50 cities</td>
<td>30 stores</td>
</tr>
<tr>
<td>Infinite Retail (Croma)</td>
<td>32 stores</td>
<td>100 stores</td>
</tr>
<tr>
<td>Vishal Retail</td>
<td>171 stores in 100 cities</td>
<td>40 stores</td>
</tr>
<tr>
<td>Easy day</td>
<td>59 stores</td>
<td>75-100 stores</td>
</tr>
<tr>
<td>Marks and Spencers</td>
<td>15 stores</td>
<td>10 stores</td>
</tr>
<tr>
<td>Tommy Hilfiger</td>
<td>14 stand-alone stores and 16 shop-in-shop stores</td>
<td>50 stores</td>
</tr>
<tr>
<td>Bharti Walmart ‘Best Price’</td>
<td>3 stores</td>
<td>15 stores</td>
</tr>
</tbody>
</table>


### 1.3.3 Segment Analysis

The various segments of Indian retail industry are:

*Food and Grocery retail*

The Food and Grocery sector includes fresh groceries, branded packaged foods, personal hygiene products, toiletries, and dry unprocessed groceries. Several players operating in this category have experimented with their offerings and formats but have achieved limited
success till date. With growing urbanisation, consumerism and acceptance of modern retail, this sector exhibits huge untapped potential.

The ready-to-eat market has grown over the past few years and with further investment expected in the food processing sector, the ready-to-eat market may prove to be the catalyst for modern retail Food and Grocery category.

However, this sector requires efforts in terms of getting appropriate store location, well trained staff, right merchandise mix, value added services, efficient and effective supply chain to consistently deliver ‘Every Day Low Pricing’ (Deloitte, 2010).

Apparel retail

Rising fashion awareness and the desire to be perceived as ‘in vogue’ has led to the rapid growth of apparel category in the country. Brand conscious behaviour which was initially restricted only to men has now caught on in the women’s apparel line as well. Gradual shift from the traditional ‘buy and stitch’ to readymade wear, for convenience and larger choice and variety prompted the increase in purchase through Department stores.

This category is considered to be the pioneer of organized retailing and in its early days witnessed many manufacturers venture into front-end retailing. Over the years, these players have not only realigned their product offerings but have also moved towards providing other value added services. With the 2006 FDI policy allowing 51 percent investment in single brand retailing, exclusive brand outlets have witnessed a rapid growth in the country (Deloitte, 2010).

Electronics

Historically, this market was largely dominated by branded stores which primarily sold high ticket value items (television, refrigerators etc.) which over the years has broadened to include lower ticket value products (hand blenders, water purifiers etc.)
There also exists a parallel second hand market for these goods (exchange offer items), thus creating a need for retailer to reverse logistics. Easy availability of consumer finance, high technology acceptance, newer product categories and technologies, and desire to emulate the developed world has led to an increase in the overall spending within this category (Deloitte, 2010).

_Furniture and Furnishings_

In the past, modern retail market within this category was predominantly driven by furniture makers who would import and market their products. This category, of late, has witnessed organized retailers setting up home furnishing sections in their Hypermarkets or starting Speciality stores. This category faces stiff competition from small time traditional retailers as well as individual carpenters and furnishers (Deloitte, 2010).

_Beauty, Wellness and Pharma_

Beauty and wellness category has been growing rapidly over the past few years which can be attributed to consumer product companies venturing in the front end. This category in India is primarily targeted at female audience, leaving a huge untapped potential for men’s products and services.

Pharmacy retailing in India is largely dominated by traditional/local chemists. Over the years, this category has attracted a number of pharmaceutical companies venturing into retailing. These new entrants are offering attractive discounts along with value added services (e.g. diagnostics and lab facilities, home delivery) being their unique selling proposition. Critical success factors in this retail segment include relationship building, meeting customer aspirations, talent management, service innovation, providing value-added services, creating strong brand awareness, and offering value for money proposition (Deloitte, 2010; Figure 1.6).

1.3.4 Retail formats in India

Both traditional and organized retail formats coexist in India. Some of the traditional retail formats operating in India are:
1.3.4.1 Traditional Retail formats

India has a rich traditional history of retail trade. Many of the retail formats have been in existence since ancient times and at the same time they have a presence across the country. Some of the traditional retail formats are:

*Mandis*

Mandis are agricultural markets set up by State Governments to procure agricultural produce directly from farmers. Located in high production centres of different crops, these markets can be categorised as grain markets, cotton mandis, soya mandis, vegetable mandis etc. There were 7,161 regulated markets (mandis) in India in 2006. These markets are mostly operated by the Agricultural Produce Marketing Committee (APMC) Act (The BW Marketing Whitebook, 2006).
**Haats**

A haat is a periodic market which exists typically at the village level. A haat can be said to be a public gathering of buyers and sellers of commodities, fruits, vegetables, household goods, clothes, and accessories. Unlike mandis, haats are accessible to small farmers. Local bodies usually control auctions of space and issue licenses and permits to vendors to use these haats (The BW Marketing White book, 2006).

**Melas**

Another prominent feature of the Indian rural life is a mela. Melas can be classified primarily according to their nature, into commodity fairs and religious fairs. Typically a mela has on an average, 800-850 outlets and the average sales per mela are Rs 143 lakh (The BW Marketing Whitebook, 2006).

**Hawkers**

The unorganized sector is characterized by the ‘lari-walla’ vendors (also known as ‘mobile Supermarket’) seen in every Indian lane and is, therefore, difficult to track, measure, and analyse.

**Baniya/Kirana/Grocers/Provision Stores/Mom-and-Pop Stores**

Semi-organized retailers like kirana (mom-and-pop stores), grocers, and provision stores are characterized by the more systematic buying, from the mandis or the farmers, and selling at fixed structures. Economies of scale have not yet been realized in this format, but the front end is already visibly changing with the times. These stores have presented Indian companies with the challenge of servicing them, giving rise to distribution and cash flow cycles as never seen elsewhere in Asia.
1.3.4.2 Organized Retail formats

The store-based organized retailers can be categorised into Food-Oriented and Non-Food or General Merchandise Retailers.

Table 1.6: Food-Oriented Vs. Non-Food Oriented Retailers

<table>
<thead>
<tr>
<th>Food-Oriented Retailers</th>
<th>Non-Food Retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predominance of food items to generate revenues</td>
<td>Predominance of non-food items to generate revenues</td>
</tr>
<tr>
<td>High frequency of purchase</td>
<td>Low frequency of purchase</td>
</tr>
<tr>
<td>Low/average/unit/value of merchandise</td>
<td>High average unit value of merchandise</td>
</tr>
<tr>
<td>Less variety of formats</td>
<td>Greater variety of formats</td>
</tr>
</tbody>
</table>


Food-Oriented retail formats

These are:

- Convenience stores
- Supermarkets
- Hypermarkets
- Supercentres

*Convenience stores*

Traditionally, the Convenience stores have been run by a single trader and his family. They are within residential areas thus reducing travel time. Consumers can pay multiple visits during the week to these stores. Now with technology becoming affordable, these stores are improving their efficiency and level of services to compete with large formats. In context of
Indian marketplace, the size of Convenience store is between 500 and 1,000 sq. ft. (Madaan, 2009).

**Table 1.7: Convenience Retail Formats in India**

<table>
<thead>
<tr>
<th>Retail Organisation</th>
<th>Convenience Retail Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spencer’s</td>
<td>Daily, Express</td>
</tr>
<tr>
<td>REI</td>
<td>6-Ten</td>
</tr>
<tr>
<td>Tesco</td>
<td>Fresh and Easy</td>
</tr>
<tr>
<td>Om Daily Needs</td>
<td>Pratidin</td>
</tr>
</tbody>
</table>


**Supermarket**

A Supermarket is a self-service store offering a wide variety of food and household merchandise. Supermarkets usually are a part of corporate chain. They usually follow centralised purchasing system and are supplied by distribution centres of the parent organisation.

**Table 1.8: Supermarket Retail Formats in India**

<table>
<thead>
<tr>
<th>Retail organisation</th>
<th>Supermarket Retail Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spencers</td>
<td>Spencer’s Super</td>
</tr>
<tr>
<td>Reliance</td>
<td>Reliance Fresh</td>
</tr>
<tr>
<td>Aditya Birla Group</td>
<td>More</td>
</tr>
<tr>
<td>Bharti Retail</td>
<td>Easy Day</td>
</tr>
<tr>
<td>Jubilant Group</td>
<td>Monday to Sunday</td>
</tr>
<tr>
<td>DFI</td>
<td>Foodworld</td>
</tr>
</tbody>
</table>
The Supermarket typically comprises fresh fruits and vegetables, dairy products, baked food products, canned and packaged food, and a variety of household goods. Both variety and assortment of merchandise are average. Supermarket retailers use mass media like newspapers and television channels for sales promotion. Supermarkets are larger in size and offer wider selection than a traditional Convenience store. They are smaller than a Hypermarket or Supercentre (Madaan, 2009).

Hypermarket

The notion of Hypermarket is to provide everything under the same roof. A Hypermarket is a large retail facility combining certain features of Supermarket and Department store as well.

Table 1.9: Hypermarket Retail Formats in India

<table>
<thead>
<tr>
<th>Retail organisation</th>
<th>Hypermarket Retail Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spencer’s</td>
<td>Spencer’s Hyper</td>
</tr>
<tr>
<td>Reliance Retail</td>
<td>Reliance Mart</td>
</tr>
<tr>
<td>Future Group</td>
<td>Big Bazaar</td>
</tr>
<tr>
<td>Food Express Chain</td>
<td>Jumbo, Total</td>
</tr>
<tr>
<td>Vishal Retail</td>
<td>Vishal mega mart</td>
</tr>
<tr>
<td>Trent(Tata Group)</td>
<td>Star India Bazaar</td>
</tr>
<tr>
<td>Amartex</td>
<td>Amartex Shoppers World</td>
</tr>
</tbody>
</table>


In the Indian context, a Hypermarket has a large floor space of above 10,000 sq. ft., so that it can have the widest assortment of products. Setting up Hypermarket requires careful
allocation of total space into sections and sparing a lot of area for parking vehicles. It is
associated with a large parking lot. It aims to sell products at a discount in comparison to
market prices and thus offers low price points. It deploys self-service techniques based on
effective merchandising and sales promotion methods. These techniques also lead to
impulsive shopping that carries higher margins. The contribution of general merchandise in
total sales is between 25 to 40 percent. Big size and high consumer footfall lead to
operational efficiencies and thus cost savings. They aim at ‘monthly bulk shoppers’ or
‘weekly shoppers’. Apart from Food and Grocery, Hypermarkets sell a variety of products
such as general merchandise, clothing, electronics items, electrical gadgets etc. The concept
of Hypermarket is becoming popular in India also as time starved customers prefer one-stop
shopping. That is precisely the reason why one-third of the total investment into organized
retail is going into Hypermarket formats (Madaan, 2009).

Supercentre

Supercentre is a combination store uniting an economy Supermarket with a Discount store.
The general merchandise contributes to 60-70 percent of total revenue. Some sell even
gasoline to attract customers. A Supercentre typically stocks 100000 to 150000 stock keeping
units (SKU). The largest Supercentre chains in USA are Wal-Mart, Meijer, Kmart, and
Target. In India, the concept of Supercentre is at evolving stage with Reliance Retail having a
Supercentre in Ahmadabad.

Non-food or General Merchandise Retailer

A retailer is defined as general merchandise retailer if more than half of the sales are
generated from non-food or merchandise items. It may include textile clothing, readymade
garments, footwear, accessories, gift items, household items, home improvement items,
computers, florists, books, electric goods, automobile, and so on.

The major types of general merchandise retailers are Shopping malls, Department stores,
Discount stores, Specialty stores, Category Specialists, Value retailers, Off-Price Retailers,
and Warehouse Clubs.
**Shopping Mall**

Shopping mall is the largest form of organized retailing in the country today. It is located mainly in metro cities, in proximity to urban outskirts. The area 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 Shoppers Stop, Piramyd, and Pantaloons.

**Department Store**

A Department store as a retail format specializes in selling a broad variety and deep assortment of product categories. It is organized into different departments such as apparel, house wares, cosmetics, sport goods, footwear, furniture, appliances, jewellery, and toys etc. It tends to differentiate from other formats in terms of shopping experience and store atmospherics like visual displays, lighting etc. Department store relies on suggestive selling by its sales team and provides variety of services like alteration of apparel and home delivery.

**Table 1.10: Department Retail Format in India**

<table>
<thead>
<tr>
<th>Retail organisation</th>
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**Specialty Store**
A Specialty store is the retail format that specializes in a specific range of merchandise and complimentary items. It usually carries a narrow but deep assortment in the chosen category. It allows comparison between brands in a category. It formulates strategy for the given market segment. This helps maintaining better selection and sales expertise than competitors. Its main competition is with Department stores. They provide high levels of service and expertise.

ITC’s Wills Lifestyle is an example of exclusive or lifestyle Specialty stores. It offers Wills Classic formal wear, Wills Club life evening wear, and trendy range of designer accessories. Landmarks group’s exclusive Specialty store ‘Lifestyle’ brings together five concepts under one roof viz. apparel, footwear, children’s wear and toys, furniture, and home décor. It has positioned itself as a trendy, young, colourful, and vibrant store.

Category Killer

This is a type of Specialty retailer and has become very popular over a period of time. The approach of a Category Killer is to dominate the category and kill the competition in that product category. It combines benefits of huge selection and low prices within a particular category so that it is able to convert most of the prospective buyers into actual buyers.

The most formidable example is ‘Wal-Mart’ which replaced ‘Toy R’ of United States as a Category Killer. The ‘Home Depot’, in home improvement category, ‘Best Buy’ in electronics, ‘Staples’ in Office supplies, ‘Sports Authority’ in sporting goods and ‘Amazon.com’ in books are examples of Category Killers in different categories.

Value Retailing

The concept of Value retailing has become popular these days. It is found in sub-urban areas and target shoppers from low income group. This target segment is different from typical Discount store consumers and demands national brands. For example, Pantaloons Retail (India) Limited has added new chain stores of Fashion Value Retail in its portfolio. It has tried to combine the discount and better shopping experience into one.

Warehouse Club
A Warehouse Club is a retail store that usually sells a wide variety of merchandise and customers pay annual membership fees in order to shop. The clubs are able to keep low prices due to their low overheads. Customers are required to buy in bulk. Even the small business owners and institutional buyers like caterers make purchases from warehouse clubs. For example, Costco Wholesale Club and Sam Club are examples of warehouse club.

1.4 Major Retail Players

A brief profile of the major players in Indian retail industry is:

The Future Group

The Future Group, which was earlier known as PRIL (Pantaloon Retail India Limited) began as a trouser manufacturer in the mid 1980s. The Future Group is divided into six verticals – Future Retail, Future Capital, Future Brands, Future Space, Future Media, and Future Logistics. The Future Group started operations in the mid 1987’s by incorporating the company as Men’s Wear Private Limited. The company went on to manufacture readymade trousers under the “Pantaloons” brand name. It came out with a public issue in 1991.

The first exclusive men’s store called “Pantaloons Shoppe” was inaugurated in 1992. Pantaloons went for a franchisee route to expand the number of retail outlets and by 1995, it had reached a crucial number of 70. The first Department store called Pantaloons was opened in Kolkata in 1997 with an investment of Rs 0.7 million. The store was a success and recorded revenues of Rs 100 million within the first year of operations. In 1999, the company’s name was changed to Pantaloon Retail (India) Limited (PRIL).

The success of Pantaloons Department stores encouraged PRIL to come up with other retailing formats such as ‘Big Bazaar’ to retail low cost general merchandising, and ‘Food Bazaar’ to retail food products. As of 2010, the Future Group has 15 million sq. ft. of retail space and has different retail formats in 35 cities and 60 rural locations across the country. These stores attract around 220 million customers each year (Future Group, 2011).

Shoppers Stop
Shoppers’ Stop, promoted by the real estate group K Raheja, is a leader in the Indian retail sector and one of the pioneers in setting up large format Department stores chain in India. Shoppers Stop Ltd has a national presence, with over 2.05 million sq. ft. area across 40 stores (including 2 airport stores) in 18 cities viz. Aurangabad, Amritsar, Bangalore (5 stores), Bhopal, Chennai, Delhi (4 stores), Durgapur, Gurgaon, Ghaziabad, Hyderabad (4 stores), Indore, Jaipur (2 stores), Kolkata (3 stores), Lucknow, Mumbai (8 stores), Noida, Pune (3 stores), and Siliguri (Shoppers Stop, 2011).

Shoppers’ Stop is positioned as a family store delivering a complete shopping experience. With its wide range of merchandise, exclusive shop-in-shop counters of international brands and world-class customer service, Shoppers’ Stop brought international standards of shopping to the Indian consumer providing them with a world class shopping experience.

Shoppers’ Stop’s customer loyalty program is called ‘The First Citizen’. The program offers its members an opportunity to collect points and avail innumerable special benefits. Currently, Shoppers’ Stop has a database of over 2.5 lakh members who contribute nearly 50 percent of the total sales of Shoppers’ Stop. The Organisation, in 2000, along with ICICI ventures also acquired the reputed bookstore, ‘Crossword’, which offers the widest range of books along with CD-ROM, music, stationery and toys. Services like Dial-a-book, Fax-a-book and Email-a-book enable customers to shop from their homes. Crossword currently has 63 stores.

Realising the role of IT way back in 1991, Shoppers’ Stop was among the first few retailers to use scanners and barcodes and completely computerise its operations. Today it is one of the few stores in India to have retail ERP in place, which is now being integrated with Oracle Financials and the Arthur Planning System, the best retail planning systems in the world. With the help of the ERP, they are able to replicate stores, open new stores faster and get information about merchandise and customers online, which reduces the turnaround time in taking quick decisions.

Trent – Westside
Established in 1998, Trent operates some of the nation's largest and fastest growing retail store chains. A beginning was made in 1998 with Westside, a lifestyle retail chain, which was followed up in 2004 with Star India Bazaar, a hypermarket with a large assortment of products at the lowest prices. In 2005, it acquired Landmark, India's largest book and music retailer.

Trent ventured into the Hypermarket business in 2004 with Star Bazaar, providing an ample assortment of products made available at the lowest prices, aptly exemplifying its ‘Helping you spend less’ motto. At present Star Bazaar has 7 stores in 5 cities located in Ahmedabad, Chennai, Mumbai, Pune and Bengaluru.

In addition, Trent acquired a 76 percent stake in Landmark, one of the largest books and music retail chains in the country. Landmark began operations in 1987 with its first store in Chennai with a floor space of 5500 sq. ft. At present Landmark have 14 big stores , 7 hotel bookstores and 6 Airport stores, varying in size from 12,000 sq. ft. to 45,000 sq. ft in Chennai, Bengaluru, Gurgaon, Mumbai, Vadodara, Pune, Lucknow, Ahmedabad and Hyderabad. Until 1996, Landmark’s product portfolio comprised books, stationery, and greeting cards. Later music was also added to it. Landmark also sparked the trend of stocking curios, toys and other gift items (Westside, 2011).

**RPG Spencer**

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. RPG’s Spencer presently has 200 stores across 35 cities covering a retail trading area of 1 million sq. ft.

Spencer's outlets are divided into two retail formats. The Spencer's Hyperstores are destination stores, of more than 15,000 sq. ft in size. They offer everything under one roof. The merchandise ranges from fruits & vegetables, processed foods, groceries, meat, chicken, fish, bakery, chilled and frozen foods, garments and fashion accessories, consumer electronics & electrical products, home decor and needs, office stationeries and soft toys. On an average, a Spencer's Hyper stocks 70,000 SKUs across 35,000 items. The other format is
Spencer's stores which are Convenience stores ranging from 1500 less than 15000 sq. ft. These stores stock the necessary range and assortment in fruit and vegetables, FMCG food and non-food, staples and frozen foods and cater to the daily and weekly top-up shopping needs of the consumer (RPG Group, 2011).

**Reliance Retail Limited (RRL)**

On June 26, 2006, Mukesh Ambani, Chairman and Managing Director, Reliance Industries Limited, announced an investment of Rs 25,000-crore in the retail sector.

Reliance Retail started its retail operation with ‘Reliance Fresh’, a grocery store that sells vegetables, fruits, personal care items, and other food products. RRL also has plans to sell apparel and footwear, lifestyle and home improvement products, electronic goods and farm implements and inputs at these stores. They will also offer products and services in energy, travel, health and entertainment. In addition to this, RRL is planning to develop partnerships to bring the best of global luxury brands to India as well.

Reliance Retail Limited plans to extend its footprint to cover 1,500 Indian cities and towns with outlets of a varied format, a mix of Convenience stores, Supermarkets, Specialty stores and Hypermarkets. Reliance also plans to open restaurant outlets, financial services marts and tourism counters within its stores (Reliance Retail, 2011).

**Bharti Retail**

Bharti Retail is a wholly owned subsidiary of Bharti Enterprises. The Company operates Easyday Convenience stores and Hypermarket stores called Easyday Market. Bharti Retail provides consumers a wide range of good quality products at affordable prices. Easyday stores are one-stop-shops that cater to every family's day-to-day needs. Merchandise at Easyday Market stores include apparels, home furnishings, appliances, mobile phones, meat shop, general merchandise, fruits and vegetables among others (Bharti Enterprises, 2011).

**Bharti Wal-Mart**
Bharti Walmart is a B2B joint venture between Bharti Enterprises and Walmart for wholesale cash & carry and back-end supply chain management operations in India to serve small retailers, manufacturers, institutions and farmers. The Company operates Cash & Carry stores under the ‘Best Price Modern Wholesale’ brand.

A typical cash-and-carry store stands between 50,000 and 100,000 sq. ft. 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 (Bharti Enterprises, 2011).

**Metro – Cash & Carry India**

Metro Cash & Carry started operations in India in 2003 with two Distribution Centres in Bangalore. With this Metro introduced the concept of Cash & Carry to India. These centres offer the benefit of quality products at the best wholesale price to over 150,000 businesses in Bangalore.

Metro offers assortment of over 18,000 articles across food and non food at the best wholesale prices to business customers such as hotels, restaurants, caterers, food and non-food Traders, institutional buyers and professionals.

Metro’s Cash & Carry business model is based on a Business to Business (B2B) concept and focuses on meeting all the needs and requirements of business customers. It is a modern format of wholesale trading, catering only to business customers (Metro India, 2011).

**1.5 Drivers of growth for Organized Retail in India**

Today, India is a dynamic combination of demanding consumers, rising levels of consumption, and a growing population base. It has emerged as the fourth largest economy in the world with a GDP (Purchasing Power Parity or PPP) of US$ 2,816 billion in 2010 after U.S., China and Japan (CIA World Factbook, 2010). Against the backdrop of an accelerating modern retail evolution, India presents an attractive destination for global corporations and
leading retailers seeking emerging markets overseas. Some of the key drivers of organized retail in India are:

**Growth in GDP**

The Gross Domestic Product (GDP) in India expanded by 8.90 percent in the third quarter of 2010. From 2004 until 2010, India's average quarterly GDP growth was 8.40 percent reaching an historical high of 10.10 percent in September of 2006 and a record low of 5.50 percent in December of 2004. The economy has posted an average growth rate of more than 7 percent in the decade since 1997, reducing poverty by about 10 percentage points (CIA Factbook, 2010).

This economic development is largely attributed to India’s dominance in the Information Technology sector in the global market place and its large English speaking population that made it the ideal choice for back office operations for MNC’s world over.

**Figure 1.7: Growth in GDP (2003-2010)**

![GDP Growth Chart](https://www.cia.gov/library/publications/the-world-factbook/geos/in.html)


The manufacturing sector of the country also provided its might to the economic development by going global hitherto restricting to export of raw materials or intermediaries that have not graduated to the supply of end product be it Pharmaceuticals or Consumer Vehicles. All this has translated in higher income levels and more surpluses for the middle
class segment that is getting ploughed into the retail sector; again fuelling the economy to higher levels.

The last five years have seen the PPP (Purchasing Power Parity) of average Indian middle class go up several times unleashing the power of purchasing. The retail sector was the greatest beneficiary. The need for a shopping experience combined with the convenience of shopping for the upwardly mobile middle class has been on the major factors for retail boom in India.

**Income Distribution**

Income growth across the country and changes in the composition of India’s income classes has a dramatic effect on the shape of India’s income distribution.

**Figure 1.8: Past and projected all India household income distribution**

Over the last 20 years, there has been a ‘stretching’ of the country’s income distribution as a large mass of the population, including significant numbers of India’s poorest citizens, has been growing richer. It is expected that this stretching will continue and the tall spiked distribution of 1985 (when society was almost uniformly poor) will be transformed into a flatter curve with the country’s population widely distributed across the income spectrum (Mckinsey Global Institute, 2007).

**Consumption growth**

India’s consumer market is set to explode over the next two decades with the total private consumption growing from US$370 billion in 2010 to over US$1500 billion by 2025. Contrary to popular belief, this growth will not be driven by population growth or by dynamic changes in household saving behaviour, but rather almost entirely by rising incomes.

India ranked first in the Nielsen Global Consumer Confidence survey released in January 2011 which shows that India is one of the fastest growing markets in the world and the current Indian consumer is filled with confidence (Nielsen Global Consumer Confidence Index – Q4 2010).

### Income Pyramids

Apart from a substantial reduction in poverty, India is also witnessing the formation of a large and primarily urban middle class over the last decades (middle class are households earning between 200,000 and 1,000,000 Indian rupees per annum). This middle class, which comprises only about 50 million people today and projected to grow to 583 million in 2025 (larger than the U.S. or EU) and will dominate consumption, accounting for almost 60 percent of total spending in the country (Mckinsey Global Institute, 2007; Figure 1.10)

### Growing consumer class

Favorable demographic and psychographic changes relating to India's consumer class, international exposure, availability of increasing quality retail space, wider availability of products, and brand communication are some of the factors that are driving the retail in India.
Over the last few years, many international retailers have entered the Indian market on the strength of rising affluence levels of the young Indian population along with the heightened awareness of global brands and international shopping experiences and the increased availability of retail real estate pace.

Development of India as a sourcing hub shall further make India as an attractive retail opportunity for the global retailers. Retailers like Wal-Mart, GAP, Tesco, JC Penney, H&M, etc. stepping up their sourcing requirements from India and moving from third-party buying offices to establishing their own wholly owned/wholly managed sourcing & buying offices shall further make India an attractive retail opportunity for the global players.

Manufacturers in industries such as FMCG, consumer durables, paints etc. are waking up to the growing clout of the retailers as a shift in bargaining power from the former to the latter
becomes more discernible. Already, a number of manufacturers in India, in line with trends in developed markets, have set up dedicated units to service the retail channel. Also, instead of viewing retailers with suspicion, or as a ‘necessary evil’ as was the case earlier, manufacturers are beginning to acknowledge them as channel members to partner with for providing solutions to the end-consumer more effectively.

The next level of opportunities in terms product retail expansion lies in categories such as apparel, jewellery and accessories, consumer durables, catering services, and home improvement. These sectors have already witnessed the emergence of organized formats though more players are expected to join the bandwagon. Some of the niche categories like Books, Music and Gifts offer interesting opportunities for the retail players. India has the youngest population amongst the major countries. There are a lot of young people in India in different income categories. The bottom line is that Indian market is changing rapidly and is showing unprecedented consumer business opportunity.

The informed consumer

Over the years, the increasing literacy in the country and the exposure to developed nations via satellite television or by way of the overseas work experiences, the consumer awareness has increased on the quality and the price of the products or services that is expected. Today more and more consumers are vocal on the quality of the products or services that they expect from the market. This awareness has made the consumer seek more and more reliable sources for purchases and hence the logical shift to purchases from the organized retail chains that has a corporate background and where the accountability is more pronounced. The consumer also seeks to purchase from a place where his or her feedback is more valued.

Explosion of media

There has been an explosion in media as well during the past decade. Kick-started by the cable-explosion during the gulf war, television has accelerated to a point where there are more cable connections than telephones in Indian homes and more than 515 channels were being aired at all times in 2010. This media bombardment has exposed the Indian consumer
to the lifestyles of more affluent countries and raised their aspirations from the shopping experience. Today they want more choice, value, experience and convenience.

**Increase in use of credit card**

Traditionally, Indians have been debt-averse. Until a decade ago, people were reluctant to borrow money except from family and friends or perhaps the local moneylender. Salaried employees were able to borrow some part of their annual salaries from their employers for personal needs. With the liberalisation of the financial sector, India has witnessed a huge growth in the use of plastic money. Together debit and credit card transactions increased by more than 42 percent to Rs 704 billion during 2009-2010 (Euromonitor International, 2010).

**Increase in retail investment**

Investments in the retail sector have improved since FDI has been allowed in single-brand and cash-and-carry formats. According to the Technopak estimates, investments in the organized retail will touch US$35 billion in the next five years or so. Investments allow organized players in retail to expand at a very high rate. All key retailers in India have expansion plans over the next 3-4 years; for instance, Pantaloon has an ambitious expansion plan to take its retail space up to 30 million sq. ft. by 2012. Likewise, Vishal Retail is expected to take its total store count to 500 with an estimated retail space of around 10 million sq. ft. by 2012.

**Rise in organized retail concentration in tier II and III cities**

Initially the retail revolution began in the big tier I cities in India; however, as tier I cities are relatively saturated now, retailers, especially value 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.

**1.6 Challenges to growth of Indian Retail Industry**

The organized retail sector in India has been witnessing challenges which are proving to be a hurdle for its fast-paced growth. Some of the challenges which the Indian retail industry is facing are as follows:
**Competition from the unorganized sector**

Organized retailers are facing immense competition from the unorganized retailers or kirana stores (mom-and-pop stores) that generally cater to the customers within their neighbourhood. The unorganized retail sector constitutes over 94 percent of India’s total retail sector and thus poses a serious hurdle for organized retailers. The organized retailers are facing stiff competition from kirana stores that offer personalised services such as direct credit to customers, free home delivery services, apart from the loyalty benefits. The traditional kirana stores are adopting various measures to retain their customers. Generally, it has been observed that customers shop impulsively and end up spending more than what they need at organized retail outlets; however, in kirana stores, they stick to their needs because of the limited variety.

**Retail sector yet to be recognised as an industry**

The retail sector is not recognised as an industry by the Government even though it is the second-largest employer after agriculture. Lack of recognition as an industry affects the retail sector in the following ways:

- Due to the lack of established lending norms and consequent delay in financing activity, the existing and new players have lesser access to credit, which affects their growth and expansion plans.
- The absence of a single nodal agency leads to chaos, as retailers have to oblige to multiple authorities to get clearances and for regular operations.

**High real estate costs**

Even though the real estate prices have subsided recently due to the slowdown in economies and the financial crises, these prices are expected to go up again in the near future. Presently the sector faces high stamp duties, pro-tenancy acts, the rigid Urban Land Ceiling Act and the Rent Control Act and time-consuming legal processes, which causes delays in opening stores.
Earlier rents on properties were very high (among the highest in the world) at some prominent locations in major cities. The profitability of retail companies were affected severely because real estate costs constituted a major part of their operating expenses. Now companies are moving out from prominent malls of tier I cities and are re-negotiating the rental agreements with landlords to reduce costs. Some are even focusing on setting up shops in tier II and tier III cities.

**Lack of basic infrastructure**

Poor roads and lack of cold chain infrastructure hampers the development of food retail in India. The existing players have to invest substantial amounts of money and time in building a cold-chain network.

**Supply-chain inefficiencies**

Supply chain needs to be efficiently-managed because it has a direct impact on the company’s bottom lines. Presently the Indian organized retail has an efficient supply chain but it appears efficient only when compared with the unorganized sector. On an international level the Indian organized retailers fall short of international retailers like Wal-Mart and Carrefour in terms of efficiencies in supply chain.

Inventory management is the first challenge that retailers face at the local store level as well as at the warehouse level. Excess inventory often leads to an increase in inventory costs, and then to lower profits, so retailers like Pantaloons and Shoppers Stop have IT systems in place for inventory management. Supply chain management and information technology systems has helped retailers to plan their stock outs, replenish their stock on time, move stock from warehouse to stores and maintain adequate stock at a store to match consumer preferences. However, the retailer may still face big challenge in terms of efficiently implementing the supply-chain software across stores and integrating it with the central warehouse, which can be a time-consuming process, requiring trained personnel.

Logistics is another challenge related to the supply chain. It is imperative for any organized food and grocery retailer to establish a robust cold chain. Amul is the best example of this
scenario, as it has developed a cold storage chain across India. Until and unless organized retailers like Reliance and Food Bazaar fully develop integrated-cold chains, they would continue to incur loss of considerable amount of money through wastages of perishable items while moving huge quantities from one place to another.

The third challenge related to the supply chain is procurement. Big organized retailers enjoy economies of scale based on their size and expansion plans. The economical benefits of scale in procurement are achieved when procurement is made in thousands or millions of units; however, the main challenge here is to procure adequate amount of stock according to customer requirements, failing which the resultant rise in inventory can affect bottomlines.

**Challenges with respect to human resources**

The Indian organized retail players shell out more than 7 percent of sales towards personnel costs. The high HR costs are essentially the costs incurred on training employees as there is a severe scarcity for skilled labour in India. The retail industry faces attrition rates as high as 50 percent, which is high when compared to other sectors also. Changes in career path, employee benefits offered by competitors of similar industries, contribute to the high attrition.

**Shrinkage**

Retail shrinkage is the difference between the book value of stock and the actual stock or the unaccounted loss of retail goods. These losses include theft by employees, administrative errors, shoplifting by customers or vendor fraud. According to industry estimates, nearly 3-4 percent of the Indian chain’s turnover is lost on account of shrinkage. The organized industry players have invested IT, CCTV and antennas to overcome the problem of shrinkage.

**1.7 Policy and Regulatory Environment for Organized Retail in India**

The last two decades, have seen India open up its economy in a slow but steady fashion to private as well as foreign investment. The foreign investment is governed through the foreign direct investment (FDI) policy, which regulates openness of industries to foreign investment,
and also the percentage that can be held by the foreign companies. Globalisation and liberalisation have immensely influenced the Indian economy and have gone a long way in making it a lucrative consumer market.

Before 1996, there were no specific restrictions on entry of foreign retailers into the Indian market for multinational companies. But in 1997, it was decided to prohibit FDI in retailing. However, 100 percent FDI was allowed in the wholesale cash-and-carry trade, under the Government approval route. In 2006, it was brought under the automatic route. During the decade i.e. from April 2000 to March 2010, FDI inflows of US $1.779 billion were received in the sector, which is 1.54 percent of total FDI inflows received during the decade. International players such as Wal-Mart, Metro, Tesco, and Carrefour entered the Indian retail sector through this route (Deloitte, 2010).

In 2006, FDI up to 51 percent in Single-Brand retailing was also permitted. FDI worth US$194.69 million flowed in during the four year period from April 2006 to March 2010. These Single Brand retail outlets mainly pertain to high-end products and serve the ‘brand conscious’ customers. Under this segment big brands such as Gucci, Nike, and Tommy Hilfiger, have made their presence felt in the market. There are some Single-Brand MNC retailers who do not make any equity investments but opt for the franchising route. Under this method, they provide all the basic inputs such as, training, shop décor, service standards, accounting software, and sometimes even the management processes. The MNCs then allow the Indian partner to invest in the fixed assets and enter into a revenue sharing arrangement with the franchisee. In addition, the MNCs might also charge some other fees, such as royalty or brand fees. McDonald’s is a prime example of this route.

The sentiment towards 100 percent FDI in retail sector is gathering pace. Currently, the UPA Government has a majority in the house and it seems quite possible that they will be able to pass the bill, making FDI in Multi-Brand retailing, a reality. Moreover, with State Governments like in case of Punjab, working with modern retailers in further improvement of trade, there is a possibility that support will flow in from other State Governments as well (Deloitte, 2010).
Figure 1.11: Policy and Regulatory Environment for Organized Retail in India

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