CHAPTER II

RETAIL MARKETING IN INDIA – A THEORITICAL APPROACH
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2.1 INTRODUCTION

In this chapter a theoretical approach on ‘Retail Marketing in India’ is elucidated. This includes introduction, meaning, kinds of retailing, history of retailing, growth and development of retail marketing, unorganised retail sector in India, organised retail sector in India, retail marketing services, theoretical aspects, strategies of retail marketing services, economical issues and challenges, future of retail in India and Summary.

2.2 MEANING

Retail Marketing is a system of buying and selling of goods and services to ultimate consumers in small units. In this, consumers are directly served with all modes of operendi to satisfy up to their expectation.

The retail marketing or retailing is defined by different authors in different contexts. The following are the some of the definitions for Retail Marketing.

According to Philip Kotler, “Retailing includes all the activities involved in selling goods or services to the final consumers for personal or non-personal use”.

According to Michal Levy, Barton A. Weitz and Ajay Pandit, “Retailing is a set of business activities that adds value to the products and services sold to consumers for their personal or family use”.

P.M. Dunne, R.F. Luch and D.A. Griffith define retailing as “an activity which involves the sale of merchandise from a fixed location, such as a store, for direct consumption by the customer. It can be defined as an activity that ensures that customers derive maximum value from the buying process. This involves activities and steps need to place the merchandise made elsewhere in to the hands of customers or to provide services to the customers”.
According to Chetan Bajaj, Ranjnish Tuli and Nidhi V. Srivastava, “Retailing is a conclusive set of activities or steps used to sell a product or a service to consumers for their personal or family use. It is responsible for matching individual demands of the consumer with supplies of all the manufacturers”. Thus, Retail Marketing is comprised of all the activities related to selling products directly to consumers through channels such as stores, malls, vending machines or other fixed locations.

2.3 KINDS OF RETAILING

Retailing is classified as Unorganised Retailing and Organised Retailing.

2.3.1 Unorganised Retailing

Traditional or Unorganised retail outlets are normally street markets, counter stores, kiosks and vendors, where the ownership and management rest with one person only. This sector accounts for two thirds of the market and requires low skilled labour. These are highly competitive outlets, with negligible rental costs (unregistered kiosks or traditional property), cheap workers (work is shared by members of family) and low taxes and overheads.

2.3.2 Organised Retailing

Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, and so on. This includes the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Organised retailing comprises mainly of modern retailing with busy shopping malls, multi storied malls and huge complexes that offer a large variety of products in terms of quality, value for money and makes shopping a memorable experience. Organised retailing is nothing but a retail place where all the items are segregated and brought under one roof, unlike the unorganised retail where e different things are sold in different shops. It also aims to bring maximum of different brands of the same type of product together.
2.4 HISTORY OF RETAILING

Retailing as an occupation came into existence when farmers started producing more food than they required. Trading was an important part of daily life in the ancient world. Different people had different skill sets, and people who had a surplus of one good desired the goods they did not have or could not produce.\(^1\)

In India, the existence of the current kirana format and other shops could be traced in the Manusmriti and Kautilya’s Arthashastra. These texts provided guidelines for dealing with customers, after-sales service, and quality and price guarantees. Such scholarly works provided the equivalence for exchange in case of barter. They also defined the tax structure for retail and wholesale transactions. Kautilya commented on the location of stores dealing in specific products in a city. He also discussed the manner in which funds and investments could be managed for better results. Memoirs of traders who came from Europe indicate that Indian merchants carried out business with low margins in order to enhance sales. Indian history and archaeology record the existence of markets during the Harappan civilization also. Elaborate descriptions of local and periodic haats have also been found. These were the places where commodity exchange was carried out and people congregated and derived several non-economic values.

The new retail formats that are now seen in India have their genesis in Europe. The earliest traders were believed to be the Cretans who sailed the Mediterranean and carried on trade with the people of the area. They flourished for 2,000 years, and their culture influenced other great trading civilizations. The Phoenicians followed the Cretans as civilization’s major traders. They distributed the goods of Egypt and Babylonia. Tyre, Sidon and Carthage were the principal trading cities of this empire. After the Phoenicians came the Romans. The Romans established a different form of retailing. They set up numerous small shops with centres. In fact, ancient ruins indicate that the world’s first department store was in Rome. With the fall of this empire, retailing disintegrated.

During the period after the fall of the Roman Empire, independent peddlers were the only retailers. They carried their merchandise around on their back. They went from village to village selling their wares. By the twelfth century artisans and traders began to organize into ‘guilds’ and opened up small shops. These guilds
helped them gain social and economic advantages. During thirteenth century, fairs and markets flourished. Early fairs often had a religious foundation. People would gather at churches and exchange goods on feast days. Larger markets were also called fairs and people travelled long distances to participate in these. Tea centres run by Lipton were the first chain of stores. At the start of the twentieth century, markets were witnessing the precursors to the present-day retailing scenario.

Large corporations entered into retailing in the United States of America and Canada in the early twentieth century. The history of American retailing can be traced back to shops located near ports where merchants from Europe would dock their ships and sell the merchandise. Many American retailing institutions originated after 1850. Prior to that, more Americans lived on farms and were self-sufficient. During this time, peddlers and general stores were the only retailers in the country. Department stores started gaining prominence after 1850. As Department stores grew in cities, rural citizens used the first form of direct catalogue/mail order marketing. This allowed them to get the goods they needed without the hassle of travelling long distances into the city.

The development of railroad systems and refrigeration between 1890 and 1920 enabled shoppers to travel more widely and choose from a greater assortment of merchandise. The first set of department stores opened during this time. They offered more convenient and consolidated locations, longer hours, and better prices. American retailing witnessed the proliferation of other formats such as supermarket chains and shopping malls between the two World Wars. National brands such as Wonder Bread and Hostess were introduced in the market during this time. The first convenience store, 7-11 (Texas), and the First McDonald’s (Illinois) also opened. The time between 1950 and 1970 witnessed the emergence of major players and formats. The first indoor regional mall was set up by Southdale. The next big retail shift came when Sam Walton opened the first Wal-Mart and discounters such as Kmart and Target opened their stores. These stores used low costs and high turnovers to provide customers with lower prices. Kroger installed the first retail barcode scanner and the first GAP store opened in San Francisco. Wal-Mart integrated computer systems to its operation. These mass retailers also set up independent distribution systems to gain the volume necessary for negotiating with suppliers, track inventory, and allow for just-in-time replenishment. In the next decade (1970-1980),
the retail industry witnesses the emergence of category killers and wholesale club stores such as Toys “R”Us, Home Depot, Circuit City, and Sam’s Club. The industry started getting consolidated at this time.

During the 1980s, superstores and retail category killers made up about one-third of the over United States retail revenues. In response to these price players, other formats such as malls, speciality stores, and grocery stores started stressing on ‘retailtainment’. Malls of America – one of the largest malls in the world – opened in Minneapolis. Sears exited its general merchandise catalogue business. This was the time when the retailers started focusing on the ‘store as brand’ strategy. The 1990s can be termed as the times of the Internet. Amazon.com launched its book retailing business using e-commerce. This period also witnessed major internalization efforts by large retailers. The current decade is witnessing a lot of turbulence in the American retail industry. Retailers are turning into multi-format entities, especially with the help of the Internet. The focus has shifted to the emerging economies and retailers are searching for a different business model to succeed in the markets ruled by small retailers.

2.5 GROWTH AND DEVELOPMENT OF RETAIL MARKETING

2.5.1 Global Retail Development Index – 2012

The Global Retail Development Index™ is an annual study that ranks the top 30 developing countries for retail expansion worldwide. The Index analyses 25 macroeconomic and retail-specific variables to help retailers devise successful global strategies and to identify emerging market investment opportunities. The GRDI is unique because it identifies today’s most successful markets and those that offer the most potential for the future.

The 2012 A.T. Kearney Global Retail Development Index, the 11th annual edition, finds a wide array of possibilities for retailers seeking to capture an immediate impact and a growth advantage in developing countries.

Highlights of the 2012 GRDI include, Brazil is the top country in the GRDI for the second straight year, leading the way for Latin America, which has 7 countries among the top 30. Chile is second once again, and Uruguay is fourth; China climbs to
third place in the GRDI, as double-digit sales growth is expected. However, rents and
labour costs are rising, so the market still has many challenges; Some of the smaller
countries with attractive retail markets include Georgia, Oman, and Mongolia, all of
which were unranked in the 2011 GRDI but are in the top 10 this year; With retail
talent a critical differentiator in developing markets, finding and retaining talented
workers is a core component to success. The Retail Talent Index, reintroduced this
year, is led by Malaysia, whose low-cost labor and favorable regulations, and a well-
educated population supports the operations of international retailers that enter and
expand in the market.

As per Global Retail Development Index (GRDI) 2012 high saving and
investment rates; fast labour force growth; and increased consumer spending—made
India for a favourable retail environment and the 5th spot in the GRD.

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Sources: Euro Money, Population Data Bureau, International Monetary Fund, World Bank, World Economic Forum, Economist Intelligence Unit, Plant Retail; A.T.Kearney analysis

2.5.2 Retailing in India: A Historical Perspective

In the beginning, there were only kirana stores called Mom and Pop stores, the
friendly neighbourhood stores selling everyday needs. In the 1980s, manufacturer’s
retail chains like DCM, Gwalior Suitings, Bombay Dyeing, Calico, Titan, etc. started
making their appearance in metros and small towns. Multi brand retailers came into
the picture in the 1990s. In the Food and FMCG sectors, retailers like Food World, Nilgiris are some of the examples. In the music segment, Planet M, Music World; and in books, Crossword and Fountainhead are some other examples. Shopping Centres began to be established from 1995 onwards. A unique example was the establishment of margin-free markets in Kerala. The 21st century saw the emergence of supermarkets and hypermarkets. Big players like Reliance, Bharti, Tata, HLL, ITC, etc. entered into the organised retail segment. The international retail bigwigs are waiting in the wings for favourable FDI guidelines to establish their own retail outlets in the country.

According to CPAS study, the unorganised retail sector of small and medium retailers employs over 40 million people. There are 11 retail outlets for every 1000 people in India. This fact suggest a considerable element of 'forced employment' in this sector. Only 4 per cent of India's 11 million retail outlets have floor area of more than 500 sq.ft each. Mostly, Retail in India is the millions of tiny shop with pucca and semi-pucca premises, and millions more on handcarts and pavements. The last 3-4 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Still, the overall share of organized retailing in total retail business has remained low.

2.5.2.1 Growth of Retail Industry in India

Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

2.5.2.2 Growth over 1997-2010

India in 1997 allowed Foreign Direct Investment (FDI) in cash and carry wholesale. Then, it required government approval. The approval requirement was relaxed, and automatic permission was granted in 2006. Between 2000 and 2010, Indian retail attracted about $1.8 billion in foreign direct investment, representing a very small 1.5% of total investment flow into India. Single brand retailing attracted 94 proposals between 2006 and 2010, of which 57 were approved and implemented. For a country of 1.2 billion people, it is a very small number. Indian retail has experienced
limited growth, and its spoilage of food harvest is amongst the highest in the world, because of very limited integrated cold-chain and other infrastructure. India has only 5386 stand-alone cold storages, having a total capacity of 23.6 million metric tons. However, 80 per cent of this storage is used only for potatoes. The remaining infrastructure capacity is less than 1% of the annual farm output of India and grossly inadequate during peak harvest seasons. This leads to about 30% losses in certain perishable agricultural output in India, on average, every year.

Indian laws already allow foreign direct investment in cold-chain infrastructure to the extent of 100 per cent. There has been no interest in foreign direct investment in cold storage infrastructure build out. Experts claim that cold storage infrastructure will become economically viable only when there is strong and contractually binding demand from organized retail. The risk of cold storing perishable food, without an assured way to move and sell it, puts the economic viability of expensive cold storage in doubt. In the absence of organized retail competition and with a ban on foreign direct investment in multi-brand retailers, foreign direct investments are unlikely to begin in cold storage and farm logistics infrastructure.

Until 2010, intermediaries and middlemen in India had dominated the value chain. Due to a number of intermediaries involved in the traditional Indian retail chain, norms are flouted and pricing lacks transparency. Small Indian farmers realize only 1/3rd of the total price paid by the final Indian consumer, as against 2/3rd by farmers in nations with a higher share of organized retail. India has had years of debate and discussions on the risks and prudence of allowing innovation and competition within its retail industry.

A 2007 report noted that an increasing number of people in India are turning to the services sector for employment due to the relative low compensation offered by the traditional agriculture and manufacturing sectors. The organized retail market is growing at 35 per cent annually while growth of unorganized retail sector is pegged at 6 per cent. The Retail Business in India is currently at the point of inflection. As of 2008, rapid change with investments to the tune of US $ 25 billion was being planned by several Indian and multinational companies in the next 5 years. It is a huge industry in terms of size and according to India Brand Equity Foundation (IBEF), it is
valued at about US$ 395.96 billion. Organized retail is expected to garner about 16-18 per cent of the total retail market (US $ 65-75 billion) in the next 5 years. India has topped the A.T. Kearney’s annual Global Retail Development Index (GRDI) for the third consecutive year, maintaining its position as the most attractive market for retail investment.

2.5.2.3 Growth after 2011

Before 2011, India had prevented innovation and organized competition in its consumer retail industry. Several studies claim that the lack of infrastructure and competitive retail industry is a key cause of India's persistently high inflation. Furthermore, because of unorganized retail, in a nation where malnutrition remains a serious problem, food waste is rife. Well over 30% of food staples and perishable goods produced in India gets spoiled because of poor infrastructure and small retail outlets prevent hygienic storage and movement of the goods from the farmer to the consumer. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a 25% share. A 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year: revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers. The Economist forecasts that Indian retail will nearly double in economic value, expanding by about $400 billion by 2020. The projected increase alone is equivalent to the current retail market size of France.

In 2011, food accounted for 70% of Indian retail, but was under-represented by organized retail. A.T. Kearney estimates India's organized retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% and 30% per year. These data correspond to retail prospects prior to November announcement of the retail reform. The Indian market offers endless possibilities for investors. It might be true that India has the largest number of shops per inhabitant. Until 2011, the Central government of India denied foreign direct investment (FDI) in multi brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government
announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. IKEA announced in January that it is putting on hold its plan to open stores in India because of the 30% requirement.

2.5.2.4 Reasons for the boom in the Retail Sector in India

The most important factors responsible for the development of the retail sector in India are liberalization of the economy, upward mobility of the middle class, shifting consumer demands, and expansion of ICTs. Since the liberalization of the economy, there has been a visible impact on the income level of the middle class, which as a whole is upwardly mobile, with a huge disposable income in hand. Along with this, there has been a change in the spending habits with more focus on improving the quality of life through increasing consumption of high end products, which previously the middle class refrained from using. Thus, the changes in economic and industrial policies in India, growth in the size of the middle-income household, changes in consumer buying and consumption habits, technology and information access to consumers, and the changing life styles are some of the prominent reasons for the retail sector boom in India.

Indian shoppers are very different in many ways from their counterparts elsewhere in the world. Loyalty is not a virtue with the Indian shopper. According to a McKinsey report, in the great Indian retail bazaar, around 60 per cent of the consumers surveyed bought from more than one retailer. Indian consumers associate packaged food with lack of freshness, and it is not surprising that almost 65 per cent of the respondents indicated they will never buy packed fruits or vegetables.
Furthermore, shoppers in India place a lot of importance on convenience. Around 64 per cent buyers surveyed said they do not mind paying extra for conveniently located stores. According to the survey, women in India prefer ethnic apparel and jewellery. More than 75 per cent women’s clothing and 85 per cent jewellery sold in India are traditional in style and design. Around 38 per cent shoppers in India said they buy clothes mostly for special occasions. Indian shoppers are willing to compromise a bit on food and grocery, the survey said. For instance, 57 per cent respondents said buying a well-known brand of shampoo is important; while as many as 49 per cent indicated that they were willing to buy lesser-known brands. When it comes to electronic goods, almost 85 per cent shoppers said they would only go with a reputed brand.  

The Indian consumers are not simple and acceptable; they want the lowest prices for the best quality at convenient locations along with quality service and some freebies thrown in for good measure. Success in India depends on understanding the complexities of a diverse country, evaluating its potential in terms of a company’s customer focus and having a plan that can be adapted to the Indian consumer. Retail in India has always been a lucrative business. Traditionally, the Vaishya’s were the trader class, and their businesses were passed on from father to son. Even now, small family-run stores, also called kiranas, offer consumers low prices, convenient locations, longer store hours and home delivery at no extra charge. It is not surprising to note that these kiranas have traditionally dominated the Indian retail sector. These stores have low operating costs as they employ household labour and usually pay no taxes. According to a Research and Markets study in 2003, there were over 12 million retail stores in India, of which about 78 per cent were small family-run enterprises using family labour. India’s retail industry has traditionally followed no recognizable format, but has grown organically, attuned to local needs. This has made it hard for traditional retailers to adapt to new ways of doing business and competing with international retailers. Small-scale retailers continue to play a vital role in Indian retailing in spite of the tremendous growth of organised retailing in recent years.
2.6 UNORGANISED RETAIL SECTOR IN INDIA

Undeniably, around 96% of Indian retail sector is unorganised and hence majority of sales take place through unorganised stores popularly known as kirana or mom-and-pop stores. The unorganised retail sector is expected to grow at about 10% per annum with sales rising from 309 billion in 2006-07 to reach US $ 496 billion in 2011-12, despite the steady expansion of organised retailers. Though organised sector is growing at a faster rate, unorganised sector is still preferred by the customers as they are more convenient and easy to approach. The kirana shop owner knows that the buyer buys place first. They offer that utility. Total number of traditional retailers is estimated to be 13 million by Technopak Advisers Pvt. Ltd.

2.6.1 Categories of Traditional Retailers

The classification of the unorganised retail universe by category is shown below:

1. Fruits and 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 kirana I store plus cereals, pulses, spices and edible oils.
6. Apparel - Sells men’s wear, women’s wear, innerwear, kinds and infant wear.
7. Footwear - Sells men’s wear, women’s wear and kid’s wear.
8. Customer durables and IT - Sells electronics, durables and IT products.
9. Furnishing - Sells home lines and upholstery.
10. Hardware - Sells sanitary ware, door fitting and tiles.
11. General mechanize - Includes lighting, stationery, toys, gifts and crockery.

2.6.2 Future Trends of Unorganised Sector

The unorganised sector is expected to grow at 10% per annum with the given relatively weak financial structure of the unorganised sector and the space constraints, this sector alone will not be able to meet the growing demand. The unorganised
sector will expand further due to its proximity, goodwill, credit sales, bargaining, loose items, convenient timings and home delivery.

2.7 ORGANISED RETAIL SECTOR IN INDIA

The Indian retail sector is highly fragmented, consisting predominantly of small, independent, and owner managed shop. The domestic organised retail industry is at a nascent stage. India got started with organised chain retailing just a few years age. There are just very few categories, the most prominent being apparel, where organised retail chains have had a significant presence for more than 3-4 years. Indian retailers have done very well. Particularly after taking in to account the various obstacles and hindrances like real estate costs, lack of trained manpower, etc.

Growth of organised sector of retailing will yield efficiencies in the supply chain, enabling better access to markets, to producers and to customers. The strength of organised retail lies in resource availability. It can translate in to efficient supply chain management, leading to faster inventory turnaround, resulting in improved bottom lines. It is anticipated that the further belongs to organised sector in India. India’s organised sector is all set to explode. While the existing players such as future group, Bharti, Reliance Retail, Essar, Shopper’s stop and Aditya Birla group are endeavouring to consolidate their markets, others such as Mohindra & Mohindra, Parsav Nath & DLF, Hero Honda and Indiabulls have announced plans to enter the retail sector.

2.7.1 Impact of Organised Sector on Other Sectors

Report of ICRIER published in September 2008 has concluded that the growth of organised retail headed by large corporate houses does not significantly impact small mom and pop retailers. ICRIER Director and CEO Rajiv Kumar elucidated that the turnaround occurs as the unorganised sector adapts to new challenges and formulate their own strategies in firms of technology upgrade and improvement in the supply chain. The organised retailing has created a niche for itself by successfully overcoming drawbacks of unorganised retailing such as poor inventory management insensitivity to customer expectations, and reluctance to invest or human capital.
2.7.1.1 Impact on Consumers

Consumers have gained on multiple counts. The impact is, consumer spending has increased with the entry of organised retail, consumers are provided with wider variety under one roof at competitive prices and all income groups have gained through organised retail purchases but the lower income consumers saved more.

2.7.1.2 Impact of Unorganised Sector

The unorganised sector is affected in the following manner: Unorganised sector has not lost due to entry of organised sector. It has rather gained in terms of business as the overall economy is growing. It has also gained in terms of its quality enhancement due to competition given by organised sector. Some businesses have closed. The closure rate is 4.2% p.a which is much lower than international rate of closure of small business, out of which only 1.7% closure is due to organised sector. Small retailers have adopted the policy of extending more credit to customers to attract and retain customers. They have become competitive by adopting improved business practices and technology up gradation.

2.7.1.3 Impact on Employment

Employment potential of the Indian economy has increased. By providing direct employment to people in various sectors like small manufacturing sector especially food processing, textiles and apparel, the unemployment rate will be reduced besides this construction packing, IT, transfer and other infrastructure sectors will also offer employment opportunities. Besides giving employment to professionals and skilled labour organised retail sector also generates a number of jobs for unskilled labour for the tasks of sorting, grading, labelling, etc., It may adversely affect employment in unorganised retail and the trade intermediaries associated with traditional supply channels but the additional jobs created will be much higher than those that are lost.

2.7.1.4 Impact on Manufacturers

The impact on manufacturers is large. Manufacturers started feeling the competitive impact of organised retail through price and payment pressures. Entry of
organised retail is transforming the logistics industry. This will create significant positive externalities across the economy. Manufacturers started building and responding their brand strength and set up dedicated teams to deal with modern retailers.

2.7.1.5 Impact on Global Players

It will help global players by providing them with the avenues for investments. Favourable demographic and psychographic changes in India’s consumer class and the rising affluence of young India population are an important attraction that attracts the global players to enter into the Indian market.

2.7.1.6 Impact on Rural Population

Rural population is also going to be benefited by retail revolution that is organised retail. Retail market is estimated to cross US $ 45.32 BILLION ON MARK BY 2010 and US 60.43 mark by 2012 according to a study by CII and YES bank. The entry of organised sector in to rural areas will provide them with experience of urban lifestyle, quality, producers and employment opportunities. ITC’ Champal Sagar (India’s first rural mall), DCM Shriram group’s maryali bazaar, retail giants like reliance, spencers and subhiksha are already expanding in semi-urban and rural areas.

2.7.1.7 Impact on Technology

Retailing is a technology intensive industry. Successful retailers are using their distribution and information systems work closely with their vendors to predict consumer demand, shorten lead time and reduce inventory holding and thereby saving cost. Nowadays, online system link point of sales terminals to the main office where detailed analysis on sales by item, stores or vendors are carried out. Data warehousing and data base retailing help in tracking information on existing and potential customers. Thus, the development and use of technology is also an important benefit of organised retailing. The technological facilities used by organised retailers are computerized accounting, inventory control and the like.
2.7.1.8 Impact on Government Revenue

Another significant advantage of organised retailing is its contribution to government revenue. Unorganised retailers don’t normally pay taxes and most of them are not even registered for sales tax, VAT and income tax. Organised retailers by contrast, are corporate entities and hence fill tax returns regularly. The growth of organised retail has contributed in steady rise in tax receipts for the central, state and local government.

2.7.1.9 Impact on Investments

Organised retail is attracting inward both at domestic level and global level and several support industries like IT industries, cold chain infrastructure and logistics and warehouse distribution services in order to strengthen the supply chain. Thus overall investment in retail sector is increasing and it helps in economic growth of the country.

2.8 RETAIL MARKETING SERVICES

The world of retailing and the concept of service are inextricably linked. Conceptually, service in retailing is a broad term; essentially, retailing is itself a service, providing the final consumer with a distribution service that provides efficiency in product retrieval. Retailers also carry out a form of ‘product editing’ service, by formulating product ranges and assortments that are geared specifically to particular customer needs, and a stock availability service so that consumers can buy products in suitable quantities at times when they need them. Retail service, or perhaps, the more commonly used term ‘customer service’, can also refer to the variety of ‘add-ons’ to a core product or service purchase that can improve the consumer’s experience during a transaction. Customer service can refer to the interaction between retail sales personnel and the customer-giving advice, information and help prior to the purchase, and reassurance and advice afterwards. The term customer service can also be used to include the implementation of a retailer’s policy (for example guarantees, exchanges and refunds) and the provision of facilities such as cafes, family parking spaces and toilets.
The relevance and quality of the service mix is an effective way for one retailer to differentiate their offer over others, and because good retail service relies on long term investment in training and developing people within retail organisations, it can be a sustainable source of competitive advantage. The way retailers use services in their retail offer can be divided into a number of categories. Product-Related Services, Convenience-Related Services, Payment Services, Product-Availability Services, Information Services and Customer Sales Services to categorize the extensive selection of activities can be considered as ‘services’ in the retail industry.

2.8.1 Product-Related Services

This type of service directly related to the product itself. It is an augmentation or ‘add-on’ to the product that helps customers feel that their needs have been fully met. For example, if a customer needs to replace a malfunctioning freezer that customer’s needs will only be completely satisfied when the new freezer is installed in their kitchen. After the customer has purchased the freezer a delivery time will have been organised, the delivery van will have arrived, the freezer would have been unpackaged, carried to the correct place in the kitchen and plugged in to make sure it functions. The packaging and the old freezer would then be taken away. The retailer’s relationship with their customer certainly does not end with the close of the sale, but is continued as the product-related services are carried out. The services that retailers offer to augment their product ranges will vary according to the nature of the products within those ranges. As well as some widely applicable service offers such as gift-wrap and home delivery. Table 2.2 indicates a number of alternatives that are appropriate to specific retail sectors.

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Some retailers go a stage further than providing an augmented product/service package. They actually differentiate their own retail offer from competitors by offering a higher and sometimes more complex level of service to match complex and highly involved customer needs. For example, a computer specialist that puts together a customized package of hardware and software for individual customers; an interior design service offered in a home furnishings specialist; or a personal-shopper service offered by a department store. In a retail environment where customer needs are growing in their sophistication, it makes sense to be able to match these needs with a finely blended mix of products and services which in the end allow a degree of personal customization for the shopper.

2.8.2 Convenience-Related Services

As consumers are, or at least feel, more time-pressurized by busy lifestyles, retailers have responded by formulating a product and service package that is highly convenience-oriented. The large grocery multiples have been particularly proactive in this area, and the following list indicates a range of convenience-related services that might typically be offered by a superstore retailer: Bag packing, Home delivery, Cafeteria, Creche, Toilets, Extended opening hours of 24 hour shopping, Cash machines, Variety of trolleys and Parent and disabled parking areas. Some of the product categories on offer in a supermarket can be considered to be convenience-orientated, in that they save a customer a separate trip to a specialty store; the in-store pharmacy, bakery and delicatessen could be considered in this way. In addition, many superstores offer the customer the opportunity to purchase ‘service products’ within the outlet. A drycleaner, a bank, a post office and a photographic film-processing unit are examples of this type of retail service.

In the early 1990s the leading grocery retailers all gave their service offer something of an overhaul, for a number of reasons. One reason was linked to responding to consumer changes – to keep satisfying the increasingly convenience-oriented supermarket customer; another was to maintain the image of a high-quality offer – an investment into higher service provision was seen to be a more strategic move than to cut prices; and a third reason was competitive – the supermarkets decided that service was an effective means by which to compete for market share. This resulted in something of a ‘service war’, with each major grocery chain offering
their ‘unique’ service bundle that might have included bag-packing, carry-to-car service, parent-and-child parking spaces, and even an umbrella service for rainy days. Some of these service offers were short-lived such as brolly offers, but others, such as parent-and-child parking and the policy of opening more and more check-outs when queues were building (the ‘one-in-front’ policy) became an integral part of grocery supermarket operators’ remit. This process, whereby a service provides temporary competitive advantage, before being repeated in a competitor’s offer is described by the service life-cycle.

2.8.2.1 The Service life-cycle

Introduction – a new service is introduced by a retailer giving them a competitive advantage.

Duplication – other retailers copy the new service, which removes the competitive advantage.

Stalemate – all retailers in a particular retail sector offer the service. Provision of the service becomes a cost, but removal of the service would result in competitive advantage.

Institutionalisation – the service is taken for granted and expected by customers. It becomes a basic element of retail operations.

Replacement – another new service is introduced, or an existing service is improved or updated to provide competitive advantage again.

2.8.3 Payment Services

In order to provide a high level of convenience in the shopping process, the more methods of payment a retailer can offer the better. If a customer cannot pay by their preferred method, then a barrier is created that might prevent the transaction being completed. This could result in the sale being lost completely. On the other hand, attractive payment methods and terms can be a way of enticing customers to proceed with a purchase. Flexible payment services are especially important for high-value transactions. Increasingly we live in a cashless society, with customers’ purses housing a proliferation of payment cards. In addition, consumer credit is readily available, and so the methods and terms of payment that retailers offer need to
have the flexibility to provide suitable arrangements for individual customers. The following list outlines some payment arrangements commonly found in retailing: Cash, Cheque, Debit cards, Credit cards, Store account cards, Hire purchase, Hire purchase with payment protection, Monthly payment via direct debit and Monthly payment with additional guarantee period.

Payment arrangements that allow a customer to complete a purchase over a period of time provide an opportunity for retailers to build a relationship with that customer. That is one of the strengths of mail-order operations, store-card schemes and loyalty cards. Customer details are collected, which can be used for further marketing initiatives. Some loyalty cards double up as payment cards, which, in the eyes of the consumer, make sense because the debits and credits to their account with that retailer can be viewed as different aspects of the relationship between the two parties. On the one hand the card is used to pay for goods, on the other it earns bonus points and relevant product information and offers.

Payment options are certainly subject to the service life-cycle. Today, the acceptance of debit cards is almost institutional in multiple retailers, and exceptions (for example Netto) who only deal in Cash need to offer a clear benefit in return (such as exceptionally low prices). Cases have been known where cash has been refused in high-class eating establishments because the tills do not carry change. One of the many criticisms of the strategy of Marks and Spencer in the late 1990s was their reluctance to move from only accepting their own credit card to a wider range of payment cards, particularly when they were introducing high-value product categories like furniture.

2.8.4 Product- Availability Services

Another aspect of retail service is that concerning product availability. When shoppers invest personal resources like time, travel costs and so on to retrieve products, they expect their investment to pay off and are disappointed if it has not been worthwhile. If it is the retailer who was out of stock of an item, rather than simply a case of their own indecision, then the feeling of frustration is all the greater. Overall, the supply-chain initiatives have raised the standards of customer service from a logistics point of view, so that as a general rule customers are more frequently able to find goods in stock. The out-of-stock situations that do occur should be
viewed as a breakdown on the retailer’s part, and therefore an opportunity for the implementation of an exceptional service to retrieve the situation, for example by making an arrangement to deliver the item to the customer’s home. The problem that modern retailers face is the high levels of retail provision, which allow a customer to switch to a competitor if they do not find a product available. In self-service situations this switching action may go completely undetected. Web-based retailing has experienced a real difficulty in this area; poor order fulfilment and unreliable deliveries have allowed many internet sales and customers to get lost in cyberspace.

2.8.5 Information Services

The information that retailers provide about their products, and how they as business operate, can be considered as part of the retail service mix. This information can be imparted in a number of ways, for example in person, by telephone, on a website, in a leaflet or within a catalogue. The main criteria for good-quality information are accuracy, and presentation in a manner that is complementary to and consistent with the overall corporate image of the retailer. Most large retailers have an information website even if they do not have a transactional e-retailing operation, and these can be a very cost-effective way of communicating with customers. Innovative retailers have used their websites to provide links to additional information that they feel is of interest to their customers, and it is this type of service that helps retailers to build a perception in customers that they are doing more than the basics in terms of service provision.

Provision of information can be viewed not only as a service, but also as a public-relations exercise. The plethora of leaflets found in supermarkets about health, product safety, environmental issues and so on, are there to reassure customers of the retailer’s social responsibility and its stance on sensitive issues. One type of information provision closely linked to the general area of retail customer-sales service is information about products that are complementary to the intended purchase. Although some customers could interpret this as a ‘hard sell’, in general, customers believe companion selling to be an appropriate practice, and that it can contribute to a higher-quality customer-service provision.
2.9 THEORETICAL ASPECTS

The retail scenario keeps changing continuously. These changes are brought by ever-changing customer requirements, economic development of the nation, falling borders, new technologies and by entrepreneurs. Countries like India and many other Asian and East European countries are witnessing unforeseen changes in the landscape of retailing. Traditionally, retailing has been perceived as single outlet business organisation run by ill-educated individuals with the help from family members. Retailers have been stereotyped as profit oriented businessmen resorting to adulteration and hoarding. However, the entry of corporates leading to growth of organised retailing has begun to alter the image of retail sector. The emergence of various formats serving the needs of segments and niches has ensured that shopping becomes synonymous with a pleasant outing for the family.

This transformation from a promoter owned kirana store to a company owned organised retail outlet can be explained by analysing the cyclical nature of these retail institutional changes leading to emergence of new formats. Several theories have been propounded to explain such developments. Following are the theories of retailing.

2.9.1 Wheel of Retailing

The wheel of retailing theory is one of the oldest and most acceptable theories of the development of retailing. It postulates that retailers enter the business at a fairly low status, low prices, and with low price operation. This helps them to compete against the established retailers. With time, when such retailers succeed, they acquire more sophisticated and elaborate facilities. Finally, they mature as high-cost, high-price retailers who become vulnerable to new entrants, who, in turn go through the same process. This happens because these stores are usually established by entrepreneurs who are aggressive and cost conscious and do not want unprofitable frills. However, they tend to lose the control over cost as they acquire age and wealth. Their successors turn out to be less competent. Either the innovators or their successors fail to adapt to the changed environment and the laxity in management lead them along the wheel.
2.9.2 The Retail Accordion

Retail development is linked to human habitation. It expands or contracts in line with the geographical expansion of the society. When a new area or location is developed and customers start living in that area, the early stores deal in almost all products needed by these customers. Few stores that come up match the offerings of these early retailers. Most of them attract customers due to convenience, as the travel and search costs from other localities are more. In most cases, these stores deal with consumer non-durable products and several emergency or infrequently purchased products such as hardware and electrical products. However, as the locality evolves a set of stores starts and offers merchandise that does not necessarily overlap with that of the existing retailers. These stores also specialise in a particular category. In most cases, these are consumer durable and household appliances. Petrol pumps, restaurants, shops selling gifts and other lifestyle products, and beauty salons are some of the retailers that emerge. This trend continues till the trading area witnesses a good growth. As the growth tapers, the retailers turn their attention from acquiring more customers to maximising the value per customer. This starts a phenomenon where retailers start adding unrelated merchandise to their offering and slowly a large number of them become ‘general’ merchants.\(^{14}\) The cycle continues, and after some time, ‘specialist’ retailers emerge that add significant value to one category of merchandise and attract clientele on the basis of either range or value added products. Some of them become price players and some emerge as category killers.

2.9.3 Melting Pot Theory

According to this theory, a new value proposition by one retailer gives rise to two new retailers with the same proposition.\(^{15}\) This theory also called the ‘dialectic process’ suggests that retail firms adapt mutually to the emerging competition and tend to adopt the plans and strategies of the opposition.\(^{16}\) This was epitomized in the earlier avatar of Tesco, where it would simply match what Sainsbury would offer. Their policies became similar in terms of facilities, offerings, supplementary services, prices, and even the loyalty programme rewards.\(^{17}\) It took almost ten years for Tesco to recover and become the most respected retailer. This phenomenon of melting pot is also very evident in the white goods sector, catalogue stores, and petrol pumps. This gives rise to a process where a successful retail ‘formula’ catches like wildfire.
and many retailers adopt it without really finding out the key success factors. Thus, after some time, the mortality rate increases and many of them are not sure of the reason of failure.

In the grocery sector, India is facing a price-led dialectic process. Although it is early to pick the survivor, many of them are good candidates for an early death. Although the instant success of the model is attracting several retailers, there is a need to find a formula for success, which is not just buying in bulk and selling it cheaper than the current retailers.

2.9.4 Polarization Theory

This theory suggests that, in a longer term, the industry consists of mostly large and small size retailers. The medium size becomes unviable. This is called polarization. The large size retailers take advantage of large and direct purchases from the manufacturers and offer a large range at very competitive prices. This phenomenon has led to increase in the size of retailers and reaction in their numbers. Larger stores offer one-stop shopping. The smaller retailers tend to offer a limited range of products, but add value to their offers with other services, or tend to specialise. It is found that firms tend to be more profitable when they are either smaller in size or they are big. The mid-size firms fall in to the Bermuda Triangle.18

The Bermuda Triangle effect refers to the phenomenon where the performance of mid-sized firms suffers if big mid-sized firms continue to ‘act small’, or small mid-sized firms set up costly big-firm practices. Informally organised firms have low fixed costs. Small firms that are informally organised have low operating costs, but as size increases, the need for coordination within the organisation increases, and informal organisation often leads to errors and confusion. Thus, the cost of operating informally increases as a convex function of scale.

Conversely, formal organisations incur fixed costs such as the cost of running an information system. For a small firm, this fixed cost is distributed over a small output, so the cost per unit of revenue is high. However, as the firm increases in size, the fixed cost is distributed over a larger volume, thus lowering operating cost as a fraction of revenue.
Ideally, small organisations should be managed informally and large organisations should be managed formally. As the firm grows in size, it should have a transition at the cost cross-over point from informal to formal management. However, organisations do not have a transition at the optimal point. Some move from informal to formal too early, others wait too long before making the transition. The result is that mid-sized firms face higher costs and lower profitability. This leads to the Bermuda Triangle of management—many firms enter it, not all get out of it at the other end. There is plenty of evidence to suggest that small independent retailers have been affected by large retailers. However, it is expected that specialised stores would grow to and fill the mid-size segment.\(^{19}\)

India is witnessing a peculiar phenomenon where both independents and large format stores are increasing by leaps and bounds. However, it is too early to predict whether polarization would occur in India as well.

### 2.10 STRATEGIES OF RETAIL MARKETING SERVICES

A retail marketing strategy refers to how a store and its products sell goods to its target customers. Each type of retail business has to make decisions about all the details of its marketing mix like product, price, place and promotion. The marketing strategy and behaviour of the retailers vary due to the differences in locations. There is a general assumption that people of different income levels live in different areas. Based on this assumption different marketing strategy is adopted by the retailers. The strategies of retail marketing services are detailed below.

#### 2.10.1 Merchandising

The success of any retail operation is based on the retailer’s ability to provide the right goods to the consumer, at the right place, at the right time and at the right price. The entire process of procuring a product/service needed by the consumer and ensuring that it reaches the place where consumer can conveniently buy it is integral to the success of any retail store. The process of merchandising covers all the functions involved in identifying the right product for the retailer, sourcing it and ensures that it reaches the end consumer. The term merchandising is unique and
exclusive to the retail industry. It refers to the entire process of inventory planning and management in a retail organisation.

Merchandising can be termed as the planning, buying and the selling of the merchandise. The merchandising is an integral part of retailing and one of the most challenging functions of retailer. Merchandising when done properly leads to an increase in return on investment. The greater the return the higher will be the profitability. Hence for a retailer, the objective of merchandise planning is to achieve the following seven rights like Right Product, Right Place, Right Quantity, Right Price, Right Mix and Right Time. The function of merchandising is to achieve all these rights, so that sales are high with an ideal level of inventory holding and thus more profits.

In order to effectively carry out merchandise management, the retail outlet needs to design and implement an exhaustive merchandise plan.

1. Designing merchandise plan

Merchandise has to be acquired so as to exploit future opportunities in terms of probable consumption by customers. In order to correctly gauge the changing consumption habits of customers, the factors like forecasting, innovativeness, assortment, brands, timing and allocation need to be taken in to consideration while devising a merchandise plan.

a) Forecasting: It gives future projections of expected sales. A forecast may be done for an entire corporate retailer, a single departmental store or a product category. Forecasting may be carried out using quantitative methods such as time series analysis, multiple regression analysis, exponential smoothing or qualitative methods such as delphi method, focus group, composite sales force method. Smaller retailers, however, rely more on objective guess, a future projection based on experience and intuition. A good forecast would take in to account the macro-factors pertaining to the general economic condition and consumer trends and the micro-factors related to the retail organisation. The nature of merchandise also needs to be considered prior to forecasting. Staple merchandise – It consists of the regular items a store is supposed to carry. These items have comparatively stable sales over a period of time and therefore, the store can easily forecast the future sales. For
example, the staple item for a super market would be rice whereas the staple item for a discount store would be apparel; Assortment merchandise – It consists of those items where customer would like to make a choice on the basis of size, style and colour. Therefore, the retailers need to forecast differently for more popular Stock Keeping Units and less popular Stock Keeping Units; Fashion merchandise – It consists of products whose sales vary depending upon changing tastes and lifestyle demands. A keen sense of changing trends is essential since forecasting is generally difficult; Fad merchandise – It consists of products which are in demand for a very short period of time. Forecasting is very difficult for such products due to the erratic nature of demand; Seasonal merchandise – It consists of products that are demanded over non-consecutive time periods. The predictable nature makes forecasting easier but only for a certain period with interval in between.

b) Innovativeness: The innovativeness of the merchandise plan is reflected through the number of new goods or services, a retailer tends to carry. On one hand it provides the retailer with a differentiating factor due to its pioneer status while on the other hand, in case the customer does not accept the product, retailer is struck with unwanted merchandise. Merchandise innovativeness should be adopted by the retailer only after considering the aspects like target market, product potential, retailers’ image, investment and risk involved.

c) Assortment: A retail outlet’s assortment consists of the selected merchandise that it carries. The assortment is always expressed in terms of breadth and depth. The breadth of assortment refers to the number of different product lines that the retailer carries. The depth of assortment refers to the variety of items within each product line that the retailer carries. In addition to the width and depth, the retailer should also decide on the quality of the assortment. Quality comes at a higher price and may lead to a relatively lower stock turnover. The assortment decision should be taken after considering the aspects like target market, retailer’s objective, retailer’s image, stock turnover and competition.

d) Brands: The retailer must decide on the appropriate mix of the national, private label and generic brands in its portfolio. The national brands are those that are produced and owned by manufacturers. The private label brands are those that are manufactured or owned by retailers or wholesalers. The generic are the low price
basic versions of the product. The national (manufacturer) brands have greater awareness among the customers and therefore, presence of such brands on the retailer’s shelves leads to greater footfalls. The private-label brands are more profitable to the retailer and comparatively less expensive to the customers. The value for money approach of private label brands leads to greater loyalty on the part of customers. The generics are no-frills goods stocked by the retailer and are priced low.

   e) Timing: The retailer should time the availability of merchandise flawlessly. For new products, the timing of the launch plays a very crucial role in its success whereas for regular product, an un-interrupted flow of merchandise needs to be maintained. The aspects like the seasonality of the item, stock turnover and order and delivery time can be considered.

   f) Allocation: The available space to a retailer is a scarce resource and therefore, has to be used economically and strategically. The allocation refers to distribution of space on the sales floor, in the stockroom and warehouse. The merchandise should be placed such that it satisfies the aspirations of target customer.

2. Implementing merchandise plan

   The merchandise plan can be implemented through the following sequential steps:

   a) Procuring information: The retailer serves as a medium between supplier and customer. He needs to have extensive information regarding both the supplier as well as the customer, in addition to information regarding competitors. Information regarding the suppliers may be obtained from the trade publications, trade shows and the Internet. The information about customer may be obtained from primary data – by carrying out a marketing research or from secondary data – internal records of the organisation and pre-existing inputs. Information about competitors may be obtained by employing comparison of shoppers who would visit the competitors and gather information regarding their merchandise.
b) Supplier selection: The supplier can broadly be categorized into two types: Company owned supplier – Large retailers have their own manufacturing and wholesaling facility for staple items. The backward vertical integration by retailer provides it with a dependable source of supply: Outside supplier – The outside suppliers can be a manufacturer, wholesaler, agents or brokers who supplies merchandise to the retailer. The decision to select a supplier for securing merchandise should be on the basis of the criteria like product range and quality, price, delivery, credit period, investment, service and future prospects.

c) Merchandise Evaluation: The merchandise procured needs to be evaluated. Depending upon the item’s cost, its attributes and the regularity of purchase, one of the following methods can be used for evaluation. Inspection – Each and every single unit is examined prior to purchase and post-delivery. Expensive and irregularly purchased non-perishable items, such as jewellery, undergo inspection. Sampling – A few representative items from the lot are carefully examined to draw an inference regarding the whole merchandise lot. Inexpensive and regularly purchased perishable items such as bulbs undergo sampling to assess the quality of entire lot. Description – A counting is carried out on receipt to verify the number of items ordered. There is no need for an individual inspection or sampling. Inexpensive, regularly purchased non-perishable merchandise such as stationary is evaluated using this procedure.

d) Purchase negotiation: The supplier and the retailer need to arrive at an agreement on various terms and conditions such as date of delivery, cash or quantity discounts, credit and payment details and point of transfer of title. A new contract would require detailed negotiation whereas a repeat contact will continue with an existing set of agreed upon terms and conditions.

e) Concluding purchase: The buying process can be concluded by placing an order with the supplier. Small retail outlets generally do this manually whereas larger retail organisations use technology like Electronic Data Interchange or Quick Response Planning to facilitate faster processing of order. An important aspect at this stage is the transfer of title from the supplier to the retailer. Various options exist in this regard. Retailer will take title either immediately after purchase or after merchandise has been loaded in to the mode of transport or on receipt of merchandise at retail outlet or when supplier is paid. However, sometimes retailer may not at all
take title to the merchandise but accept a consignment and pay the supplier after it is sold.

f) Receiving and stocking merchandise: On receipt, the merchandise must be checked for completeness of the order and product conditions. The accompanying invoice should be matched with the merchandise through physical verification. This is followed by marking of price and inventory information on the merchandise. Thereafter, merchandise needs to be separated for on-store display and stock room storage. The next step involves receiving orders from customers and delivering the product on the basis of cash or credit transaction. The retailer should also put in place a process for handling customer returns. Inventory control measures should be instituted to analyse sales, profits, turnover and cost for each product category and item. Inventory losses should be monitored and minimized through effective measures against damage and pilferage.

g) Reordering merchandise: While reordering merchandise, the retailer need to take in to consideration the aspects like ordering and delivery time, inventory turnover, working capital availability and ordering and handling costs.

h) Evaluation and feedback: The merchandise plan should be reviewed periodically and monitored continuously for its effectiveness. Any worthwhile feedback should be taken in to consideration at the information procurement stage.

Thus, merchandise management deals with planning and implementation of acquisition, handling and monitoring of merchandise categories for a retail outlet and the merchandise planning is the first requisite for good merchandise management. While designing merchandise plan, care must be taken to give due consideration to forecasting, innovativeness, assortment selection, brand selection within an assortment, relevance of time factor in product availability and allocation of space to different product categories. Designing of merchandise plan should follow flaw-less implementation. The various steps required to be taken are procuring information, selection of suppliers, evaluation of merchandise, re-ordering merchandise and finally evaluation of merchandise plan and feedback to the designing stage.
2.10.2 Location Strategy

Location is the most important ingredient for any business that relies on customers. It is also one of the most difficult to plan completely. Location decisions can be complex, costs can be quite high, there is often little flexibility once a location has been chosen, and the attributes of location have a strong impact on a retailer’s overall strategy. A good location may let a retailer succeed even if its strategy mix is mediocre. The choice of a location requires extensive decision making due to the number of criteria including, population size and traits, the competition, transportation access, parking availability, the nature of nearby stores, property costs, the length of the agreement, legal restrictions and other factors. A store location may necessitate a sizable investment and a long term commitment. The retailers moving from one location to another faces the potential problems like some loyal customers and employees may be lost; the greater the distance between the old and new sites, the bigger is the loss. A new site may not have the same traits as the original one. Store fixtures and renovations at an old site usually cannot be transferred to a new site; their remaining value is lost if they have not been fully depreciated. Location is a major cost factor because it involves large capital investment, affects transportation costs and human resources cost like salaries and is a major revenue factor because it affects the amount of customer traffic and the volume of business.

2.10.2.1 Factors considered in Selecting the Location

Decisions regarding the location of a store are very critical not only to the future performance of that outlet but also the retailer’s long term prosperity. This is compounded by the consideration of certain specific issues such as consumer’s choice, to gain competitive advantage, understanding of the structural and social changes, high investment involving long term financial implications and Government formalities.

a) Consumer’s Choice: The consumer behaviour is most often guided by their consideration of the ideal location of shop.

b) To gain Competitive Advantage: The decision on where to locate the retail outlet will be of strategic importance because if they develop the best location, it will earn them a long term competitive advantage.
c) Understanding of the Structural and Social Changes: Any decision on location will definitely have to take in to consideration the existing trends and likely social changes.

d) High Investment involving Long term Financial Implications: The retailer has to consider the investment cost, lead times and long term financial implications involved in the development of a retail location and site.

e) Government Formalities: There could be many government policy decisions having a binding on the development of new retail outlets. This implies there could be restrictions on selection of new location sites for retailing purposes.

2.10.2.2 Level of Location Decision

A location decision involves a three step procedure – selection of a city, selection of an area or type of location within a city and identification of a specific site. While selecting a particular city the factors like size of the city’s trading area, population and growth trends in the trading area, purchasing power and its distribution, trade potential for different lines of trade, the number, size and quality of competition and the development cost must be considered. To select an area or type of location within a city the factors like customer attraction power of a particular store, quantitative and qualitative nature of competitive stores, availability of access routes, nature of zoning regulations and direction of spread of the city have to be evaluated. The factors adequacy and potential of traffic passing the site, availability of the site to intercept the traffic flowing past the site, complementary nature of adjacent stores and adequate parking need to be considered while selecting a specific site.

2.10.2.3 Types of Location

After evaluation and selection of area, a retailer has to decide on the general location of the retail outlet. The different types of general location alternatives are:

1. Isolated Store/Solitary Site: A free standing retail outlet such that there are no other stores in the vicinity to share its traffic, is known as an isolated store. It will be located on the highway (such as a super store which needs large area) or on a street (such as a convenience store which caters to the local residents multiple needs). The
lack of competition and lower rental costs make this an attractive decision. However, such stores find it difficult to attract customers, leading to higher promotional expenses. The operating cost may also be higher due to its isolated nature.

2. Unplanned Business District: This is a retail location where two or more outlets are in close proximity to each other. This type of location site comes into existence when a number of buildings have been converted for retail purpose. It can be of four types viz., central business district, secondary business district, neighbourhood business district and string.

   a) Central Business District – It is the centre of retailing activity in a city characterized by large number of retail outlets, offices, residence leading to higher vehicular and pedestrian traffic. They offer an extensive assortment of goods and services at different price levels. However, their poor and often crumbling infrastructure leads to inadequate parking facility and traffic congestion. Higher rent and municipal taxes adds to the disadvantage.

   b) Secondary Business District – It is generally located at the intersection of major streets. Their unplanned nature results in poor infrastructure support even though they are located nearer to residential areas. They generally cater to a smaller trading area and therefore, have less extensive assortment sold through smaller stores plagued by traffic congestion and delivery difficulty.

   c) Neighbourhood Business District – It is generally located in a major street in a given residential area and catering to the convenience shopping and service needs of its inhabitants. Even as it offers congestion free environment, the customers have to bear with a less extensive assortment of goods and services available at prices higher in comparison to central business district and secondary business district.

   d) String – It consists of a group of stores located along a street, offering related products. The stores exist in highly competitive environment since price is the major differentiating factor. However, the stores have greater accessibility. Since they are located along a street and have lesser operating costs.

3. Planned Shopping Centre: It consists of a group of retail outlets located in a centrally managed commercial establishment such that there is balanced tenancy and access to customer amenities like parking. Balanced tenancy is the practice of
allotting space in a commercial establishment so as to ensure that the stores complement each other regarding quality and variety of their products offerings. Increasingly, planned shopping centres are emerging as the retail destinations of the future. It offers customers an improved total retail experience. Customers have access to an extensive assortment of goods and services, often in a temperature controlled environment, with supplementary services such as safekeeping of valuables and parking. Planned shopping centres are of three different types namely regional shopping centre, community shopping centre and neighbourhood shopping centre.

   a) Regional Shopping Centre – It is a very large commercial establishment offering a broad and deep assortment and services to customers. It consists of a number of anchor stores, restaurants, movie halls and other facilities. An anchor is a mass retailer which occupies the largest floor space in the mall and draws maximum shoppers. It is a destination store and attracts maximum number of shoppers.

   b) Community Shopping Centre – It is a moderate sized commercial establishment with an anchor store and several smaller stores. The extensiveness of assortment of offer is moderate and the stores complement each other ensuring balanced tenancy.

   c) Neighbourhood Shopping Centre – It is a planned commercial establishment housing a number of stores offering convenience goods and essential services to people living in the nearby area.

A retailer has an option of choosing from among isolated store, unplanned business district and planned shopping centre such that it is in synchronisation with its target market profile and other aspects of retail strategy mix.

2.10.2.4 Retail Location Strategies

Choice of wrong location for a store will not only result in the retailer losing a great deal of business but it can also result in waste of money invested in acquiring the location building and shop fittings. Thus, depending upon the social and demographic changes affecting their customers, they should adopt a suitable retail location strategy. There are other factors like location’s accessibility and proximity to public transport terminus, facility for parking vehicles, variety of goods, competition,
and costs etc., which play a decisive role in the customers’ preference for the retail location. Location strategies for certain type of retailers are as follows.

a) Departmental Stores: Departmental stores are usually located in central business location and shopping centre areas. They are able to attract a large number of people due to their large size and merchandise. The departmental store can also create its own traffic for a shopping mall. This is because now many malls in India are planning to have the makings of a multi activity centre, with multiplex screening movies, fully air conditioned, good food, enclosed space during rains and parking facilities as an added bonus. Further, many malls design their tenant mix so as to attract certain type of customers who would prefer to shop at their specialty stores.

b) Category Specialists: Category specialists sell various products through its retail formats. Their choice of location is based on the reasons such as, they compete on price and these locations cost less than malls, facilitates easy accessibility to parking spaces as the merchandise may be large and difficult to carry and these stores act as a single destination store for selection, presentation, pricing, etc., for the customer.

c) Grocery Stores/Food Stores: Grocery and food stores are typically located in strip centres. These grocery/food stores are price competitive and strip centres have relatively less expensive rent. People prefer to purchase grocery and food from such stores which carry convenience goods. Consumers are not willing to travel long distances for and put in more effort to evaluate goods prior to their purchase. Instead they would prefer to purchase grocery and food at such stores which offer quality products at reasonable prices.

Thus while selecting a location for the retail outlet, the retailer must evaluate the trade-off between the cost of the location against its value to customers, the type of merchandise being sold and the profit.

2.10.3 Pricing Strategy

Price is the monetary cost associated with acquisition or use of a product or service. It can also be defined as the exchange value of goods or services in terms of money. Without price there is no marketing in the society. It is a crucial marketing mix decision due to its impact on the bottom-line of the company and on the
perspective of the customer. For the company, price is an income generating function which establishes the viability of its business operations. On the other hand, for customers price serves as an indicator of the various functional and psychological benefits that can be expected from the product. From the perspective of the retailer price is a critical strategic tool. It is a source of cash flow and profitability leading to growth. Price is intrinsically linked to cost and margin and together they provide the retailer with income. The success of the retailer depends not only on providing appropriate product assortment, but also on providing it at an optimum price to the target consumer. From the consumer’s perspective, price is a determinant of the value from the product or service.

2.10.3.1 Factors Influencing Retail Pricing

Pricing decisions are not easy to take. A retailer’s pricing policy must be derived out of the retailer’s objectives and be consistent with the rest of retail mix decisions. The complexity of the decision is enhanced by the market and product related factors. The seasonal nature of demand and/or perishable characteristics of the product has to be included in the pricing policy. Therefore, pricing decision cannot be taken by a retailer by considering only the profitability aspect of operations. Some of the other factors that have an influence on pricing decisions are,

a) Customers: Price sensitivity is one of the important factors which a retailer has to consider while setting retail price policy. The influence of demand on the price is an important consideration. Elasticity in demand process must be understood to get clear idea about the demand and its influence on price. The products which are necessities tend to be inelastic. When close substitutes are available, there is price elasticity. Large budget products tend to be elastic, whereas small budget, necessary products tend to be inelastic. Price of the product itself can be a powerful differentiator. If consumer perceives differences, they will be highly price sensitive. Consumers show greater price sensitivity as products move through their life cycles. Price can be used as a cue to higher quality.

b) The Government: The laws relating to various aspects of retail pricing needs to be considered prior to price setting. Change in government legislation may affect the retail pricing. (e.g.,) VAT.
c) Suppliers: A conflict of interests between the supplier (manufacturer or wholesaler) and the retailer should be avoided. The supplier would like to convey a certain kind of image to its market through its pricing policy. Any deviation on the part of retailer can lead to conflict. Retailer may carry the supplier’s brand at a considerably higher price so as to sell its private label brand on price advantage. He may also pick branded items from gray market at bargained price and sell it at low prices in its outlet. If the manufacturer’s intended target market is high end customer, this may confuse customers and dilute positioning of the manufacturer’s brand.

d) Competitors: The pricing strategy adopted by competitors has to be given great significance in case the retailer intends to carry out price oriented strategies to attract customers and charge market price. On the contrary, if the retailer differentiates itself on the basis of other elements of retail mix, an administered pricing may be opted for. Market pricing is generally used by discount stores and supermarkets whereas administered pricing is used by departmental and specialty stores. In addition, the pricing strategy must be consistent with retailer’s positioning and other elements of the retail mix.

2.10.3.2 Pricing Objectives

A retailer’s pricing objectives reflect its overall goals. They are consistent with the retailer’s overall image and positioning, sales, profit and return on investment goals. Pricing objectives should be in agreement with the merchandise policies. Following are the important pricing objectives.

a) Product Quality Objectives: Product quality objectives centre on recouping costs associated with retail research and development. In addition, product quality objectives can be used to create the perception of high product quality and thus high retail store quality, in the consumer’s mind. This objective is often used together with a skimming objective by high-end retailers.

b) Skimming Objectives: With skimming objectives the retailer sets an initial relatively high price for a product. It is often used to recoup costs incurred when selling a new product – costs associated with research, development and marketing.

c) Market Penetration Objectives: Prices are initially set lower to attract large numbers of customers. This is effective when the retailer’s customers are price
sensitive. The key to an effective market penetration strategy is to increase sales volumes to offset the low product price.

d) Market Share Objectives: This allows the retailer to adjust price levels based on competitors’ changes in price, enabling the retailer to create additional market share or reduce market share in relation to the competition.

e) Survival Objectives: This allows the retailer to increase price levels to meet sales expenses. This type of objective is generally used to match sales volumes to overall store expenses.

f) Return on Investment Objectives: It is created to help the retailer meet or exceed stated return on investment figures. Management creates a target return figure it thinks will be satisfactory to stakeholders. Then the price is set to reach that targeted return level.

2.10.3.3 Pricing Strategy

The pricing strategy of a retail outlet should be such that it should fulfil the long term and short term objectives of the firm. In addition there should be a well-defined pricing policy laying down the guidelines that should be adhered to while finalising the pricing strategy to be adopted. Broadly there can be two different approaches towards pricing likewise cost oriented approach and demand oriented approach.

1. Cost-oriented Approach: The retailers set the price on the basis of an understanding of the costs incurred by the retailer. It is a simple method of determining price. However, it does not take into consideration the expected demand for the product, the ability of the market to bear the cost plus price and the price at which competitors are offering similar product.

2. Demand-oriented Approach: This approach determines the price on the basis of estimation of quantities that customers would buy at different prices. The various pricing techniques that use the demand-oriented approach are as follows:

a) Discrimination Pricing – The product is sold at different prices to different groups of target markets or at different times.
b) Backward Pricing – The process of pricing begins with the customer. The price which the customer is willing to pay is determined. Then, an acceptable margin is agreed upon. Thereafter, the retailer works backward to make sure that the product is obtained at the desired cost, even if it means adjustments on qualitative aspect.

c) Price Lining – The retailers sell merchandise at specific price lines only, indicating distinct levels of quality. The retailer first identifies the floor and ceiling prices and then establishes the price lines. Once the price lines have been established, retailer procures merchandise consistent with the lines.

d) Skimming Pricing – The retailer charges a premium price from willing customers. This method is useful when there is a heavy demand for the product and charging a higher price would not lead to any decrease in demand.

e) Penetration Pricing – The retailer prices the products below competitors to ensure faster and greater market acceptance. A retail outlet selling consumer products can initially carry out penetration pricing to increase its footfalls and generate awareness in the market.

f) Leader Pricing – The retailer sells certain items at very competitive prices so as to increase customer traffic and generate greater overall revenue. The items offered at lesser prices are termed as loss leaders.

g) Odd Pricing – The retailer offers products below a round figure, such as Rs. 999.95 to create a perception that the price is below the amount which customer is willing to pay.

h) Every Day Low Pricing – The retailer offers products at prices that are competitive in comparison to normal retail outlets and stable over a longer period of time.

3. Competition-oriented Approach:

Here the prices are based on competitors’ prices. When the prices adopted by the competitors play a key role in determining the price of the product, it is said that competition oriented pricing is being followed. Here, the retailer may price the product on par with the competition, above the competitor’s price or below it.
2.10.3.4 Price Adjustments

The price can be used as a counter mechanism against dynamic disequilibrium in the market. The disequilibrium may be due to competitor activity, seasonal problems, pilferage, spoilage on shop floor and space constraints. The adjustments in price can be of two types like wise Markdown and Additional Mark-up. Markdown refers to a downward adjustment of price. Additional Mark-up refers to an upward adjustment of price. The revision in price may be required due to surplus demand or increasing costs.

Thus the pricing decision should be taken after considering the customers’ response, the government’s policy, suppliers’ expectations and competitors’ strategies. The pricing strategy adopted by a retailer may be cost oriented, demand oriented approach or competition-oriented approach. The various pricing techniques that use demand oriented approach are discriminatory pricing, back ward pricing, price lining, skimming pricing, penetration pricing, leader pricing, odd pricing and everyday low pricing. The pricing strategy should take in to consideration price adjustments in order to adapt to any change in environment. The adjustments in price may be made through markdown on the selling price or by providing additional mark-up on the selling price.

2.10.4 Promotion Strategy

Retail promotion is any communication by a retail organisation intending to inform, persuade or remind the target market regarding any aspect of that organisation. This involves a mix of communication activities carried out by retailers in order to make a positive influence on the customer’s perception, attitude and behaviour. The basic purpose is to inform customers about retailer, build appealing brand images of their merchandise and the services offered. Through the promotional campaign, a retailer seeks to provide information and knowledge about the products to the consumers and ensure that the consumer develops a favourable attitude towards the retailer and his products and sell their merchandise.

2.10.4.1 Elements of Retail Promotional Mix

Advertising, public relations, personal selling and sales promotion are the elements of promotion. The promotion mix is managed by the retail firm’s marketing
and advertising department. In some cases, retailers and manufacturers pool in resources for effective promotional strategy. Retailers employ a combination of advertising, sales promotion, personal selling and publicity to achieve promotional objectives. The degree and nature of usage of each of the promotion methods depends on the objectives of the retail firm, product, market profile and availability of resources. For e.g., Haldiram, the Delhi-centric food chain, primarily relies on point of purchase materials, neon signs on the restaurant exterior and lately FM radio channels for its promotion.

1. Advertising: Advertising is any paid form of non-personal communication transmitted by an identified sponsor. It is the most popular means of promotion due to its ability to reach out to large market with a standardized message. Advertising is not only the provider of information about products, services and availability at different retail locations, but also an important link in the retail sector between the advertiser and the receiver of the message. Its imperativeness has increased in this era of globalization and liberalization around the world. The various types of advertising that the retailer can resort to are as follows:

   a) Product Advertising – It is used to promote merchandise which is new, exclusive and superior in certain specific aspects of quality, design and its benefits.

   b) Price Advertising – The retailer advertises regarding availability of merchandise at a price lesser than the regular price. The intention is to entice the consumers in to the outlet by generating excitement about availability at a lower price for a very short duration.

   c) Organisational Advertising – This kind of advertising is used to facilitate corporate branding of the retailer. Generally, an organised retailer such as a chain or a franchiser uses this type of advertising. The intention is to build a strong association in the mind of consumer about the total retail experience that a retailer is capable of providing irrespective of the geographical location of its outlet.

2. Sales Promotion: It is another form of paid impersonal communication, which offers additional value and incentive to the customer. While advertising gives a reason for consumers to buy, sales promotion provides consumers with a specific
incentive to buy. There are two strategies in sales promotion. They are pull and push promotion strategies.

a) Pull Promotion Strategy – Where consumers are offered various incentives in the form of free samples, discount coupons and the like.

b) Push Promotion Strategy – Where dealers are offered incentives such as target based incentives, display schemes for dealers and so on.

The various sales promotion tools used by retailers are: Samples – A certain amount of product or service given free to customers; Coupons – A certificate entitling the bearer to avail saving on purchase of mentioned products; Contests – Consumers submit respective entries and the entry adjudged best by jury is awarded prize; Sweepstakes – Consumers submit respective entries and the winner is chosen at random through a lucky draw; Premium – Merchandise is offered at a lower cost or free of cost as an incentive to purchase a particular product; Frequent Shopper Programme – Customers are awarded points and discounts based on the monetary value of their purchase in order to enhance loyalty; Point of Purchase – Information delivered at the points of purchase in order to stimulate impulse purchase; and Product Demonstrations – The products are shown actually performing the tasks they are meant to perform.

3. Personal Selling: It involves oral communication with one or more prospective customers for the purpose of marketing and sales. Personal selling is a form of communication process where the retail sales-persons through a face to face interaction with customers trying to satisfy their needs. The level of personal selling used by a retailer depends on the image it wants to convey, the products sold, the amount of self service, and the interest in long-term customer relationships as well as customer expectations. Retail sales-people may work in a store, visit consumer homes or places of work or engage in tele-marketing. The two qualities which a sales person must possess are ego drive and empathy. The sales person must have a personal zeal to close the deal. Further he must not only try to convince the customer but understand the customer’s point of view as well. On the basis of these attributes, sales persons are divided into two categories.
a) Order Takers – They perform clerical and routinized sales functions such as making store arrangements or answering customer queries.

b) Order Getters – They are more proactive in informing and persuading customers so as to close the deal.

The various steps involved in personal selling are, greeting customers, enquiring about customer requirements, showing the required merchandise, giving sales presentation and/or product demonstration, answering customer queries and closing the sale. Personal selling is more useful for product categories where self-service is not sufficient or desirable. The technological products or products with a snob appeal are more suitable for personal selling.

4. Public Relations and Publicity: Public relation is a set of activities meant to promote or protect the retailer’s image among its public (consumers, suppliers, employees, investors, government and citizens). It can be paid or unpaid, personal or non-personal, having an identified sponsor or not having an identified sponsor. From the customer’s point of view, it is a highly credible source of information and therefore it helps in enhancing the image of the retail organisation. A specific type of public relations activity is publicity. Publicity is any unpaid form of non-personal communication transmitted through mass media such that there is no identified sponsor. Public relation and publicity are effective tools to be used when there are cost constraints to be taken care of. A well planned public relation exercise can be used effectively in synchronization with other components of promotional mix to attain communication objectives.

Thus the retail promotion is achieved through advertising, sales promotion, personal selling, public relations and publicity or any combination of any of these.

2.11 ECONOMICAL ISSUES AND CHALLENGES

Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. While India presents a large market opportunity by giving the number and increasing purchasing power of consumers there are significant economical issues and challenges also. India has liberalized its
single brand retail industry to permit 100% foreign investment, with regulatory issues and legal structures pertinent to establish operations in this new dynamic market. As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps: a) 1995 – World Trade Organization’s general agreement on trade in services, which include both wholesale and retailing services, came into effect. b) 1997 – FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route. c) 2006 – FDI in cash and carry (wholesale) brought under the automatic route. d) Up to 51% investment in a single-brand retail outlet permitted. e) 2011 – 100% FDI in single-brand retail permitted.

Following are the various economic issues and challenges which are faced by the Indian retail sector.

### 2.11.1 Foreign Direct Investment

FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services. The domestic company in which foreign currency is invested is usually being controlled by the investing foreign company.

In the past decades, FDI was concerned only with highly industrialized countries. US were the world’s largest recipient of FDI during 2006 with an investment of 184 million from OECD (Organization for Economic Co-operation and Development) countries. France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive record in FDI investments. Now, during the course of time, FDI has become a vital part in every country more particularly with the developing countries. This is because of the following reasons: availability of cheap labour, uninterrupted availability of raw material, less production cost compared with other developed countries, quick and easy market penetration. Horizon FDI which arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI; Platform FDI and Vertical FDI which takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country are the various types of foreign direct
investment. Horizontal FDI decreases international trade as the product of them is usually aimed at host country; the two other types generally act as a stimulus for it.

2.11.1.1 FDI in the Retail sector

Retailing is one of the world’s largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a country’s product or service to enter into the global market.

1. Cheaper production facilities:

FDI will ensure better operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price.

2. Availability of new technology:

FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country. Greater managerial talent inflow from other countries is made possible. Domestic consumers will benefit getting great variety and quality products at all price points.

3. Long term cash liquidity:

FDI will provide necessary capital for setting up organized retail chain stores. It is a long term investment because unlike equity capital, the physical capital invested in the domestic company is not easily liquidated.

4. Lead driver for the country’s economic growth:

FDI would create a competition among the global investors, which would ultimately ensure better and lower prices thus benefiting people in all sections of the society. There would be an increase in the market growth and expansion. It will increase retail employment and suppress untrained manpower and lack of experience. It will ensure better managerial techniques and success. Higher wages will be paid by
the international companies. Urban consumers will be exposed to international lifestyles.

5. FDI opens new doors for Franchising:

Restrictions on FDI are considered as trade barriers as they deny direct market access to foreign firms. Retail giants who are at their wings, seeking entry into foreign market are looking for other available alternatives. These restrictions on the global retailers regarding the inflow of Foreign Direct Investment, leads them towards acquiring the market entry through franchises. Thus, countries which offer promising market potentialities for retail growth offers substantial growth in the franchising sector as well.

2.11.1.2 Implications of FDI in retail

In spite of the recent developments in retailing and its immense contribution to the economy, it still continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world. Over a period of 10 years, the share of organized retailing in total retailing in India is only 2 per cent (between 1995 and 2005). One important reason for this is that retailing is one of the few sectors where foreign direct investment is not allowed. Within the country, there have been protests by trading associations and other stakeholders against allowing FDI in retailing. On the other hand, the growing market has attracted foreign investors and India has been portrayed as an important investment destination for the global retail chains. The need for larger FDI is because India is at a stage where it needs US investments, technology, and management policies to sustain and enhance its economic growth. In 2006, Foreign Direct Investment (FDI) in India amounted to US$37 billion, out of which only $5 billion was from the US. This was not a very encouraging figure in view of the goal of increasing the GDP by 34-36%. India still requires an FDI component equal to 4% of the GDP. The US needs to invest more in various sectors of the Indian economy.

India is looking forward to a high growth rate of almost 16% – double that of the current 8%. Hence, there is a distinct need for larger FDI. There are other necessities which a larger FDI will cater to employment generation, income generation, technology transfer, and economic stability. Hence, the need for larger
FDI is a pressing situation these days in India. Foreign countries are well aware of this, and many of them are taking extra initiative to invest in the Indian economy. Lately there has been a remarkable surge in the demand for the liberalisation of the Indian retail sector both at the domestic and as well as at the international front and it seems that the government is giving the matter a very pensive and careful consideration. Some of the factors that have contributed to this trend are the evident profits in the ever growing but conserved Indian retail sector, reduction in tariff, cheaper real time communications, and cheaper transport.

The main reasons for such an unequivocal demand stems from the realization that, while the retail sector requires heavy investment for expansion, there is hardly any local capital left in the capital markets as a consequence of global financial meltdown; efficient management of multi-brand, multi-product, multi-location retail, especially in the area of back-end operations, require heavy dose of technology, which over the years has been developed and perfected by foreign players.

2.11.1.3 Major Attractions for Global Retailers in India

Retailing is being perceived as a beginner and as an attractive commercial business for organized business i.e. the pure retailer is starting to emerge now. Indian organized retail industry is one of the sunrise sectors with huge growth potential. Total retail market in India stood at USD 350 billion in 2007-08 and is estimated to attain USD 573 billion by 2012-13.

Organized retail industry accounts for only 5.5% of total retail industry and is expected to reach 10% by 2012. AT Kearney, the well-known international management consultancy, recently identified India as the ‘second most attractive retail destination’ globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign investors’ eyes. With a contribution of an overwhelming 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy.

Foreign companies’ attraction to India is the billion-plus population. Also, there are huge employment opportunities in retail sector in India. India’s retail industry is the second largest sector, after agriculture, which provides employment.
According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the retail sector will create 50,000 jobs in the next few years.

India in such a scenario presents some major attractions to foreign retailers. There is a huge, huge industry with no large players. Some Indian large players have entered just recently like Reliance, Trent. Moreover, India can support significant players averaging $1 bn. in Grocery and $0.3- 0.5 bn. in apparel within next ten years.

The transition will open multiple opportunities for companies and investors. In addition to these, improved living standards and continuing economic growth, friendly business environment, growing spending power and increasing number of conscious customers aspiring to own quality and branded products in India are also attracting to global retailers to enter in Indian market. According to industry experts, 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 (Mckinsey 2008).

Furthermore, during 2010-12, around 55 million square feet (sq ft) of retail space will be ready in Mumbai, national capital region (NCR), Bengaluru, Kolkata, Chennai, Hyderabad and Pune. Besides, between 2010 and 2012, the organized retail real estate stock will grow from the existing 41 million sq ft to 95 million sq ft (Knight Frank India 2010). Thus, there is certainly a lucrative opportunity for foreign players to enter the Indian terrain. Growth rates of the industry both in the past and those expected for the next decade coupled with the changing consumer trends such as increased use of credit cards, brand consciousness, and the growth of population under the age of 35 are factors that encourage a foreign player to establish outlets in India (Kalathur 2009). India thus continues to be among the most attractive countries for global retailers. Foreign direct investment (FDI) inflows between April 2000 and April 2010, in single-brand retail trading, stood at US$ 194.69 million, according to the Department of Industrial Policy and Promotion (DIPP).

The Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to
conclusion that investment of ‘big’ money in the retail sector would in the long run not harm interests of small, traditional, retailers.

A number of global retail giants are thus eyeing this opportunity to swarm this seemingly nascent sector and exploit its unexplored potential. Leading watchmaker Titan Industries Limited plans to invest about US$ 21.83 million for opening 50 premiums watch outlets Helios in next five years to attain a sales target of US$ 87.31 million. British high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years. M&S currently operates 17 stores in India through a joint venture (JV) with Reliance Retail.

2.11.1.4 Reasons for Allowing FDI in Retail Sector

The 30% mandatory sourcing condition has been incorporated to encourage local value addition and manufacturing. FDI complements and supplements domestic investment. Domestic companies are benefited through FDI, by way of enhanced access to supplementary capital and state-of-the-art technologies; exposure to global managerial practices and opportunities of integration into global markets.

Government had instituted a study, on the subject of “Impact of organised retailing on the unorganised sector”, through the Indian Council for Research on International Economic Relations (ICRIER), which was submitted to Government in 2008. The ICRIER study indicated significant benefits for various stakeholders, such as consumers, farmers and manufacturers arising from the growth of organised retail.

Based upon the study, as well as the experience of other countries, it is the Government’s assessment that implementation of the policy permitting FDI, up to 51%, in multi-brand retail trading, is likely to facilitate greater FDI inflows in to front and back-end infrastructure, technologies and efficiencies to unlock the potential of the agricultural value chain; additional and quality employment; and global best practices. This, in turn, is expected to benefit consumers and farmers in the long run, in terms of quality and price.

The 30% mandatory sourcing condition has been incorporated to encourage local value addition and manufacturing. The increased level of activity, in the front-end, as well as in the back-end, resulting from greater FDI inflows, is expected to create additional employment opportunities for rural and urban youth. It is, further,
expected to encourage existing traders and retail outlets to upgrade and become more efficient, thereby providing better services to consumers and better remuneration to the producers from whom they source their products.

There is no procedure to shortlist company’s foreign investors desirous of investing in retail trade (multi brand or single brand) in India are required to submit their applications in the Department of Industrial Policy and Promotion, where their applications are examined to determine whether the proposed investment satisfies the notified guidelines, before being considered by the Foreign Investment Promotion Board, in the Ministry of Finance, for Government approval.

India has stringent anti-corruption laws. Any corrupt practices are liable to be dealt appropriately under applicable laws.  

2.11.2 Indian Retail Reforms

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers. The government of Manmohan Singh, prime minister, announced on 24 November 2011 the following.

1. India will allow foreign groups to own up to 51 per cent in “multi-brand retailers”, as supermarkets are known in India, in the most radical pro-liberalisation reform passed by an Indian cabinet in years;
2. Single brand retailers, such as Apple and Ikea, can own 100 per cent of their Indian stores, up from the previous cap of 51 per cent;
3. Both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
4. All multi-brand and single brand stores in India must confine their operations to 53 odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;
5. Multi-brand retailers must have a minimum investment of US$ 100 million with at least half of the amount invested in back end infrastructure including cold chains, refrigeration, transportation, packing, sorting and processing to
considerably reduce the post-harvest losses and bring remunerative prices to farmers;

6. The opening of retail competition will be within India’s federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations. The opening of retail industry to global competition is expected to spur a retail rush to India, it has the potential to transform not only the retailing landscape but also the nation’s ailing infrastructure. The fresh investments in Indian organised retail will generate 10 million new jobs between 2012-2014, and about five to six million of them in logistics alone; even though the retail market is being opened to just 53 cities out of about 8000 towns and cities in India.\(^22\)

2.11.2.1 Indian Retail Reforms on Hold

According to Bloomberg, on 3 December 2011, the Chief Minister of the Indian state of West Bengal, Mamata Banerjee, who is against the policy and whose Trinamool Congress brings 19 votes to the ruling Congress party-led coalition, claimed that India’s government may put the FDI retail reforms on hold until it reaches consensus within the ruling coalition. Reuters reports that this risked a possible dilution of the policy rather than a change of heart.\(^{[23][24][25]}\)

Social newspapers claimed on 6 December 2011 that India parliament is expected to shelve retail reforms while the ruling Congress party seeks consensus from the opposition and the Congress party’s own coalition partners. Suspension of retail reforms on 7 December 2011 would be, the reports claimed, an embarrassing defeat for the Indian government, suggesting it is weak and ineffective in implementing its ideas.\(^{26}\)

Anand Sharma, India’s Commerce and Industry Minister, after a meeting of all political parties on 7 December 2011 said, “The decision to allow foreign direct investment in retail is suspended till consensus is reached with all stakeholders.”\(^{27}\)

On 19 February 2013 Tamil Nadu became the first state in the country to stoutly resist
MNC ‘invasion’ into the domestic retail sector. In Chennai, Tamil Nadu CMDA authorities placed a seal on the massive warehouse spreading across 7 acres that had reportedly been built for one of the world’s leading multinational retail giants, Wal-mart.28 In February 2014, Vasundhara Raje led newly elected Rajasthan Government reversed the earlier Government’s decision of allowing FDI in retail in the state. It reasoned that the sources of domestic retail are primarily local whereas international retail affects domestic manufacturing activity and hence reduces employment opportunities.29

2.11.2.2 Single-brand Retail Reforms Approved

On 11 January 2012, India approved increased competition and innovation in single-brand retail.30 The reform seeks to attract investments in operations and marketing, improve the availability of goods for the consumer, encourage increased sourcing of goods from India, and enhance competitiveness of Indian enterprises through access to global designs, technologies and management practices. In this announcement, India requires single-brand retailer, with greater than 51% foreign ownership, to source at least 30% of the value of products from Indian small industries, village and cottage industries, artisans and craftsmen.

Mikael Ohlsson, chief executive of IKEA, announced IKEA is postponing its plan to open stores in India. He claimed that IKEA’s decision reflects India’s requirements that single-brand retailers such as IKEA source 30 per cent of their goods from local small and medium-sized companies. This was an obstacle to IKEA’s investment in India, and that it will take IKEA some time to source goods and develop reliable supply chains inside India, IKEA announced that it plans to double what it sources from India already for its global product range.31

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2.11.3 Challenges to Retail Development in India

A McKinsey study claims retail productivity in India is very low compared to international peer measures. Total retail employment in India, both organised and unorganised, account for about 6% of Indian labour work force currently – most of which is unorganised. A complete expansion of retail sector to levels and productivity similar to other emerging economies and developed economies such as the United States would create over 50 million jobs in India. Training and development of labour and management for higher retail productivity is expected to be a challenge.

In November 2011, the Indian government announced relaxation of some rules and the opening of retail market to competition. Organised retail in India is little over a decade old. It is largely an urban phenomenon and the pace of growth is still slow. Some of the reasons for this slow growth are: Retail is not recognised as an industry in India. Lack of recognition hampers the availability of finance to the existing and new players. This affects growth and expansion plans. Real estate prices in some cities in India are among the highest in the world. The lease or rent of the property is one of the major areas of expenditure; high lease rentals reduces the profitability of a project. In addition to the high cost of real estate, the sector also faces very high stamp duties on transfer of property, which varies from state to state (12.5% in Gujarat and 8% in Delhi). The presence of strong pro-tenancy laws makes it difficult to evict tenants. The problem is compounded by problems of clear titles to ownership, while at the same time land use conversion is time consuming and complex as are legal processes for selling of property disputes.

Poor roads and the lack of a cold chain infrastructure hampers the development of food and fresh grocery retail in India. The existing supermarkets and food retailers have to invest a substantial amount of money and time in building a cold chain network. The sales tax rates vary from state to state, while organised players have to face a multiple point control and tax system, there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi-point octroi. With the introduction of Value Added Tax (VAT) in 2005, certain anomalies in the existing sale tax system causing disruptions in the supply chain are likely to get corrected over a period of time.
In the case of the Indian retail sector, there exists a high threat of new entrants as the sector itself is in a nascent stage and is growing. Limited barriers to entry exist. In Indian retail, the threat of substitutes is very high. The unorganised retailing in India is still the largest wherein cheaper versions of products are available. This still services most of the middle and poor income families in the country. The price at which the product is available to the retailer for selling to the end consumer is very important in retail, as it plays a large role in the actual profitability. The suppliers to the retailing industry are the companies who provide the finished products to make various retail products. The bargaining power of suppliers is low because there are a large number of potential suppliers in the market. Therefore the prices become competitive. In fact, the emergence of private labels in apparel and food has played a key role in controlling the bargaining power of suppliers.

In Indian retail, the bargaining power of buyers is fast increasing and can be termed as moderate to high, depending on the product or service. The buyers are the most powerful in the retailing industry. In an age of the informed consumer, meeting the buyers’ expectations in terms of product, price and service is increasingly becoming difficult. The intensity of rivalry between competitors in an industry depends on the structure of competition. The competition among the existing firms in the Indian market is not very high as there are few players in the market. High product differentiation is a major factor that intensifies the competition.

Most of the organised retailers are using available and affordable technology to capture consumer information. Through technology, retailers can capture a whole lot of segmentation variables and subsequently use them for shopper segmentation. Technology helps to take better decisions in some critical areas such as new product introduction, suitable product offering, quicker ordering and assortment planning. Retailers use shopper’s loyalty data to design customised promotional offering for different set of customers.

It is very difficult to get experienced stores managers to run stores. The retailer is ready with retail space in different malls and high traffic retail location but availability of qualified and experienced personnel is still a big concern for the retailer. Almost all retailers resort to poaching which is at best a temporary solution. In view of the rapid expansion of retail business in India, retaining and developing
work force is of utmost importance to supply a talent pool to cater to the needs of this sunrise sector. The success of any retail business depends upon attracting and retaining the customer base. Therefore, retail stores should position themselves in such a way so that customers would find it convenient to come to their retail store. If store position is not done in a proper location, the success ratio does not improve. The Indian players like Subiksha and Big Bazaar are able to attain success through “value proportion” positioning.

Though talk of opening up of the retail sector for FDI has been going on for quite some time, no major breakthrough has taken place in retail sector so far. FDI would bring a lot of positive changes both for the operators and the consumers. The infusion of much-needed foreign investment would result in retail consolidation, increasing supply chain efficiency, flow of technical know-how and global practices. It will make shoppers feel that they are having an informative shopping experience.

2.11.4 Impact of Economic Slowdown on Indian Retailing

The organised retail business in India has been affected by economic downturn, raising unemployment, inflation and the consumer’s unwillingness to spend. This has resulted in lower sales, and in some cases, retail outlets have also had to be shutdown. Several corporate entrants into India’s retail sector including the Aditya Birla Group, Pantaloon Retail, RPG Group’s, Spencer’s Retail, Reliance and Vishal Retail among others have been affected by the reduced rate of economic growth.

2.11.4.1 Changes in Consumer Buying Behaviour

Consumers have changed their spending priorities. They are taking care of their needs, rather than their wants. In order to be successful, it is important for the retailer to respond to the changing consumer mood. The retailers have to provide consumers with the right kind of product at the right price and create brand loyalty. This is also the right time for the retailer to focus on long term plans and to larger market share, as weaker players disappeared.
2.11.4.2 Decline in Footfalls in Retail Stores

The number of consumers frequenting shopping malls and large department stores has also decreased considerably. Malls have been adopting different promotional campaigns to attract customers. For the retailers, innovative Customer Relationship Management (CRM) activities are the need of the hour along with different product ranges catering to the changing needs of the customers.

2.11.4.3 Heavy Toll on Jobs

The retail sector employs 24 million people, but only 5,00,000 work in the organised sector. While there are no official numbers on retail job losses, industry experts say it is around 15%. That is, however, the right time for the retailers to pick and choose the right talent so as to bring in fresh energy and insights. Gaining employees’ loyalty through internal marketing and looking for talent within the organisation are some ways for optimising the productivity of shop floor employees.

2.11.4.4 Decline in Sales

Major departmental stores like Shoppers’ stop have experienced a decline in sales, prompting them to close some of their airport shops and food outlets. The Adithya Birla Group, which began retailing operations in 2007 after acquiring Hyderabad based Trinethra chain of stores, is believed to have incurred a net loss of Rs. 534 crore on the sales turnover of Rs. 1030 crore during 2008-09. Pantaloons Retail India Ltd., showed a decline in sales of household products and durables. Despite a healthy 21% rise in sales during the quarter ended March 31, 2009, it posted a less than expected rise in the net profit. Spencer’s Retail, known mainly for food and grocery retail, made a foray into lifestyle retailing, but ended the year with no growth in ‘same store sales’. The solution to counter this problem is that big retailers take up private labels business more aggressively as the new mantra to beat the slowdown. This will enable them to leverage the benefits of branded products, while keeping the prices lower and more cost effective for consumers, rather than the corresponding national brands. Private labels offer better value for money to the consumers.
2.11.4.5 Many Stores are Shutting Shop

Retailers expanded without adequate backend logistics and supply chain, leaving the outlets vulnerable. High rentals, coupled with low returns and mounting interest rates, made once successful Subhiksha close 1200 stores across India. Reliance shut around 50 of its Reliance Fresh stores and lay off 13% of its 30,000 strong workforce.

It is time to enter into alliances or partnerships, manage stores more effectively, take help from experts and change product profiles to match customer needs. Diversify and move towards niche rather than mass markets. Re-negotiate rentals, effective inventory management and cost cutting techniques making the front-line sales people more productive and cutting down marketing and advertising budgets. Retail sector will recover and get back on track, in spite of the effects of the economic shutdown. Consumer will emerge as the king, compelling the retailers to make necessary changes in order to survive.

2.12 FUTURE OF RETAIL IN INDIA

In India, the retail sector is the second largest employer after agriculture. The retailing sector in India is highly fragmented and consists predominantly of small, independent and owner-managed shops. There are some 12 million retail outlets in India. Besides, the country is also dotted with low-cost kiosks and pushcarts. There has been a boom in the retail trade in India owing to a gradual increase in the disposable income of the middle-class households. More and more players are venturing in to the retail business in India to introduce new attractive retail formats like malls, supermarkets, discount stores, department stores and even changing the traditional look of the bookstores, chemist shops and furnishing stores. Food sales constitute a high proportion of the total retail sales. However, the non-food retailing sector registered faster year-on-year growth than food sales.

The retail business in India is expected to expand widely with further growth of organised retailing in both food and non-food segments. The Indian retail market, which is the fifth largest retail destination globally, is estimated to grow to 427 billion US dollars by 2015. A strong trend in favour of organised retail format is being
witnessed in both food and non-food sectors as people are showing preference of one-stop shops. Customers are also looking for convenience in shopping.

In future, with more dual income families, the consumer’s ability to spend will increase, but at the same time, it is predicted that the time available for shopping will go down. In such scenario, the retailers will have to take steps to develop shopping as an experience; through the more successful retailers will be those that will provide faster services.

The shopping mall phenomenon is not likely to be restricted only to metros as malls are also coming up in non-metro cities and larger towns across the country. It is stated that there are immense opportunities and possibilities for mall developers and retailers to explore beyond metros. The growing consumer needs in the mini metros, Tier II and Tier III cities are almost matching up to that in the metros. Nearly a decade after the first signs of organised retail format evolution, India is expecting to, develop vast retail real estate space. India represents an economic opportunity on a massive scale, both as a global base and as a domestic market. Retailing business is playing a major role throughout the world, increasing productivity across a wide range of consumer goods and services. The retail sector is slowly developing in India and its impact has also started in India. This is happening due to the Indian consumer class. The modernization of the Indian retail sector will be reflected in the rapid growth in sales in supermarkets, departmental stores and hypermarkets. This is because of the growing preference of the affluent and upper middle classes for shopping at these types of retail stores, given the conveniences they offer such as shopping ambience, variety and single-point source of purchase.

2.13 SUMMARY

The concept of retail is primitive in Indian context. Grocery stores, medical stores and lot many other stores working surprisingly well all over the country. Recently with the entrance of big players like Wal-Mart or Reliance, people are getting idea of the traditional stores going to be vanished. But just to remind us, we should never forget how deep rooted is this old concept. The very modern organized stores have taken the idea of retailing nowhere else than from these old shops. India's
organized and unorganized retail sectors can co-exist and flourish. The growth in the Indian organized retail market is mainly due to the change in the consumer’s behaviour. This change has come in the consumer due to increased income, changing, lifestyles, and patterns of demography which are favourable.

Now the consumer wants to shop at a place where he can get food, entertainment, and shopping all under one roof. This has given Indian organized retail market a major boost. While on the other hand the traditional stores are shops where the various product available are the range of product really required by the customers. The recent clamour about opening up the retail sector to Foreign Direct Investment (FDI) becomes a very sensitive issue, with arguments to support both sides of the debate.

The retail sector in India is a highly fragmented sector. In India, it is characterised by low entry barriers, the absence of economies of scale, high transportation costs and diverse market needs. Retailers need to take these factors into consideration and work towards creating economies of scale. Retailing is a dynamic field which requires dynamic individuals to implement innovative, dynamic retail programmes that will generate significant returns to the retailers.
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