CHAPTER 1

INTRODUCTION

1.1 The Traditional India

India is known for its ancient civilization and culture. The ancient history of India is very vast and significant. It laid the foundation of a civilization that has been flourishing till date. The history of ancient India dates back to the time when humans set foot in the subcontinent. The rich culture of India is a result of the dynamic historical background. Civilization and beginning of settlements were not limited to just some parts but the whole of India. Early Indian history also had influences from the cultures that surrounded the country. The settlements in surrounding countries like China, Europe, Central Asia, etc. also influenced the culture in India. Early Indians ate food that was easily available from nature. Fruits, wild berries, meat, fish, etc. were the main food items of the nomadic dwellers. With the advent of civilization, people settled and started to do farming. This led to the discovery of food crops, pulses, etc. Food in ancient India was cultivated in the fertile river valleys. Rice was the staple food that was eaten with cooked lentils, vegetables and meat. Wheat was used to make flat breads known as "Chapatti". Milk and milk products also came into use during ancient times. Rice was eaten with curd and yogurt. Many spices were cultivated in India and were used in cooking for aroma and flavor. India flourished in the cultivation of spices and many of them were later exported to foreign lands. Merchants with loaded carts with merchandise used to travel far and wide for commercial activities or in search of new opportunities. There was a time when India was the master of the foreign trade of Europe, Asia and Africa. The matchless
fertility of the Indian soil and numberless products of Indian arts and crafts caused enormous development of commerce (Prakash Chandra Prasad, 2003). Due to its abundance of fertile lands, exotic spices, arts and artifacts and handicrafts, India was invaded by various rulers like the Mughals, the Portuguese, The Dutch etc. English businessmen first came to India in 1612 as the English East India Company in pursuit of the spice trade. Until the early 1700s, they competed with other European trading companies. With the decline of the Mughal Empire, English influence increased. The British came to India to look for the spices. and gold and silver but when they saw that Indians were fighting among themselves they eventually took control over India.

It was during the British rule that India encountered a huge drain of wealth. David Clingingsmith et al. (2005) have noted that “between 1772 and 1815 there was a huge net financial transfer from India to Britain in the form of Indian goods. The “drain resulting from contact with the West was the excess of exports from India for which there was no equivalent import” included “a bewildering variety of cotton goods for re-export or domestic [consumption], and the superior grade of saltpeter that gave British cannon an edge” “India was a major player in the world export market for textiles in the early 18th century, but by the middle of the 19th century it had lost all of its export market and much of its domestic market. While India produced about 25 percent of world industrial output in 1750, this figure had fallen to only 2 percent by 1900.”

1.2 India during Post Independence

When India finally emerged as an independent nation in 1947, it was a deeply impoverished country, which was subjected to the whims of monsoons and periodic famine. In 1950 the country accounted for a mere 1.2 percent share of global GDP
despite having over 14 percent of the world’s population (CIA 2007). The period of 1970s and 1980s saw disappointing economic results due to government control over the economy and lack of openness to trade. The year 1991 marks the turning point when India was forced to open itself out to the world. The “opening” was not limited to the economy but even to all other aspects of life, and the process was sped up by the fact that it coincided with the communications revolution — cable television, mobile telephones, and the internet (Worldscibooks.com). Post 1991, economic reforms have led to India progressing from being the 16th largest economy in the world in 1990 to the 13th largest in 2005, surpassing countries such as Australia and Netherlands (McKinsey May 2007). As India’s economy has grown, so too has the spending power of its citizens. Real average household income in India has roughly doubled over the past two decades. Along with rising incomes have come greater consumption and the emergence of India’s much discussed “new middle class” (Rajesh Shukla, et.al, 2004).

India’s path to high growth rates has been different from its other Asian counterparts such as China, Indonesia and Malaysia. The clearest distinction is in the importance of services relative to industry (it may be noted that while India’s services-led model has been different from its Asian peers, services have also played a significant role in the growth of other countries, particularly in Latin America). Whereas the East Asian model has emphasized moving up the manufacturing value-chain, services have been the key driver of India’s GDP growth. Overall services accounted for 55% of India’s GDP in 2005 putting it between China at 41% (excluding Hong Kong) and the United States at 79% (McKinsey May 2007).
Figure 1.1 – GDP Per Capita of various countries, 2005

![GDP per capita, 2005, $2000 chart](chart1)

Figure 1.2 – Services share of GDP, 2005

![Services share of GDP, % chart](chart2)

Source: EIU, Viewshare, Global Insight; MGI India Consumer Demand Model, Mc Kinsey, 2007
The best known example of India’s service sector growth is its information technology (IT) and business-process-outsourcing (BPO) sector, whose successes have been built on factors such as telecom deregulation, falling technology costs and the availability of educated, English-speaking workers. However it would be a misconception to imagine that India’s service sector growth is all about IT/BPO. Although this sector has grown rapidly – over 20 percent per annum, in the last decade – it still remains a small part of India’s overall economy, accounting for less than 2.5% of GDP today. India’s services – led growth model has been far broader with large sectors such as banking, retail and health-care enjoying 8 percent plus growth during the 1990s

1.3 Retail Trade in India

India like Britain is a nation of shopkeepers. With over 12 million retail outlets, India has one of the highest densities of retail outlets in the world with one retail outlet for ~90 persons. (Pankaj Gupta, 2006) . Retail in India has been characterized by the presence of small shops, local neighborhood stores also called kirana shops, stalls, street vendors and hawkers. These stores stocked grocery products, households products, staple items like rice, wheat, sanitary products, cold drinks, soaps etc all in space of as little as 300 sq.feet. Till the mid 1990s retailing was a low cost structure, mostly owner-operated, had negligible real estate and labour costs and little or no taxes to pay. Consumer familiarity that ran from generation to generation was one big advantage for the traditional retailing sector.
However in the past decade India has witnessed a retail boom. With the entry of modern retailers over the last few years, the share of organized retail has been growing rapidly to reach 5% of the total market (FICCI-Ernst & Young, 2007). Today retailing is the largest private sector in India and second to agriculture in employment. According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, India retail industry is the most promising emerging market for investment. In 2007, the retail trade in India had a share of 8-10% in the GDP (Gross Domestic Product) of the country. In 2009, it rose to 12%. 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.

Further, emerging markets such as India and China are the final frontier for retail taking the focus away from saturated Western markets. The Indian retail market was estimated at $350 billion of which organized retail was estimated at only $8 billion. In other words organized retail accounted for a mere 3.5% in 2005. In 2008, the share of organized retail was 7.5 per cent or US$ 30 billion of the total retail market which was estimated to be around $400 billion. India’s overall retail sector is expected to rise to US$ 833 billion by 2013 and to US$ 1.3 trillion by 2018, at a compound annual growth rate (CAGR) of 10 per cent. Also, organized retail, which is pegged at around US$ 8.14 billion, is expected to grow at a CAGR of 40 per cent to touch US$ 50 billion by 2011 and US $107 billion by 2013(RNCOS report, www.rncos.com). In other words, organized retail is growing at a faster rate than the overall industry. The retail landscape in India is gradually evolving with interplay of several factors ranging from demographic to economic ones. As per
Edelweiss Securities the retail industry will reach a size of US $453 bn by 2011, fuelled by the Government of India’s increasing focus on achieving 9-10% growth in GDP, and the growing consumer income level and aspirations.

All the important Indian cities have major commercial projects under construction for retail purposes. In fact, the retail sector has provided the primary boost to the commercial property market all over India. Mall space, was virtually non-existent before 2000. Spencer Plaza in Chennai and Crossroads in Mumbai are considered to have pioneered the shopping mall and shoptainment revolution in India. From three malls in the year 2000 to almost 300 malls by the year 2010, the pace of development has been rapid. It has been estimated that mall development would spread across 60 cities in the country by the end of the decade. The West and North of India are estimated to witness the highest rate of mall development in India. Indian retail players like Shopper's Stop, Pantaloon, Lifestyle, Subhiksha, Food World, Vivek's, Nilgiris, Ebony, Crosswords, Globus, Barista, Qwiky's, Café Coffee Day, Wills Lifestyle, Raymond, Titan, Bata and Westside are looking to expand their operations. Well-established business houses such as Wadia, Godrej, Tata, Hero, Malhotras, Reliance etc., have entered the fast-growing organized retail market in India. Moreover, many new apparel brands such as Zara, the fashion label owned by Inditex SA of Spain, UK garment chain Topshop, the Marc Ecko clothing line promoted by the US entrepreneur of the same name and the Japanese casual wear brand Uniqlo are preparing to open outlets in India.
However, as per the Cartesian Economic Meltdown survey 2008 (BusinessWorld Marketing Whitebook 2010), almost all key industries in India have been negatively impacted by the slowdown retail was no exception. The organized retail market was growing at 35 percent annually while growth of unorganized retail sector was pegged at 6 percent. (GRDI, AT Kearney 2007). However Quarter 3 growth number of FY 2008-09 put organized retail market growth at 10-12% percent. (BusinessWorld Marketing Whitebook, 2010, Pg 283). Thus Organized retail penetration which was expected to touch 16 percent by 2012 from the current 5%, is likely to trace 10.4 percent only.

**Figure 1.3 – Organized Retail Penetration**

![Organized Retail Penetration](image)

Source: BusinessWorld Marketing Whitebook, 2010

Despite a slowdown in the economy, the retail sector is still registering decent growth. Further retailing has played a major role the world over in increasing productivity across a wide range of consumer goods and services. In the developed countries, the retail
industry has developed into a full-fledged industry where the organized sector accounts for almost 80% of the total retail trade.

The impact can be best seen in countries like U.S.A., U.K., Mexico, Thailand and more recently China. Economies of countries like Singapore, Malaysia, Hong Kong, Sri Lanka and Dubai are also heavily assisted by the retail sector. Retail is the second-largest industry in the United States both in number of establishments and number of employees.

The retail industry employs more than 22 million Americans and generates more than $3 trillion in retail sale annually. Retailing is a U.S. $7 trillion sector. Given this scenario, the India retail sector is poised for change.

1.4 Organized vs. Unorganized sector in Retail

The retail industry comprises of (1) organized retail and (2) traditional retail. Below is given the evolution of the retail sector in India as per a KSA Technopak study (2005).

Figure 1.4 – Evolution of retail
1.5 Trends in Retail formats

The FICCI Ernst & Young 2007 report on winning with intelligent supply chain says that retail sector in India is highly fragmented with over 12 million unorganized retailers across the country. More than 80% of these outlets are small family business using household labour. With the entry of modern retailer over the last few years the share of the organized market has grown rapidly to reach 5% of market by 2006. China and Brazil India’s main emerging market peers took about 10 to 15 years to reach the current levels of 20% and 38% respectively of organized retail from 5% when they began. India too is moving in the direction towards growth and maturity in the retail sector at a fast pace. Listed below are the trends observed in organized and traditional retail formats.

1.5.1 Organized retail formats

- **E-commerce**
  
  The amount of retail business being conducted on the Internet is growing every year. Many major retail organizations and manufacturers have online retail store. Companies like 'Amazon.com and First and second.com' which helped pioneer retail E-commerce concept, now being followed by bricks-and-mortar.

- **Departmental Stores**
  
  As of 2005, departmental stores had dominated the market. But over the decade or so, these department stores have suffered badly. It is unlikely that these players will disappear from the market. However they should be ready to expect more bumps, as the strong get stronger and the weak get absorbed.
• **Category Killers**

These are the giant retailers that dominate one area of merchandise. They are able to buy bathroom tiles, file cabinet, electronic goods, or pet food in such huge volumes that they can then sell them at prices even fairly large competitors cannot match.

• **Discount Stores**

These along with the category killers have changed the landscape of the retail industry. Once mom-and-pop and departmental stores dominated retail, now the discount retailers and category killers are at the top of the heap.

• **Specialty Stores**

These stores concentrate on one type of merchandise and offer it in a manner that makes it special. Industry experts predict growth in this segment, particularly in home furnishing and home improvement and it seems to attract many of the best and the brightest in retail.

• **E-tailors**

While most retailers have online storefronts strictly online purveyors with non brick-sand-mortar. Counterparts are hoping to snare a percentage of the retail profit. Major players such as Amazon.com have generated enough business to cause top brick and mortar competitors to come up with their own Internet sites.
1.5.2 Traditional retail formats

Traditional Retail Formats refer to those formats that have long been part of the retail landscape of India. The include formats like Kirana and independent stores that are typical of the unorganized retail sector.

- **Mom-and-pop stores and traditional kirana stores**
  Small independent stores across product, across product categories, is a very common retail format in India, particularly in small township but with the emergence of new retail formats they are also undertaking large scale renovation to attract their target consumer segments.

- **Co-operative and government owned stores**
  Government owned stores distribute some specific goods at controlled rates. These stores are very popular in rural areas. Mostly low income consumers go to these stores. The limitation of these stores are limited stock, less variety, domination and corruption by store holders.
1.6 Indian Retail – Future Scenario

Thus one can see that the Indian retail sector is poised for major changes. The large pool of emerging middle class, with population of more than 350 million lies at the center for the major retail industry players. The changing consumption patterns are raising the demand for lifestyle products. Growing consumerism would be a key driver for organized retail in India. Traditional formats are going to be competing with modern formats. Various factors like increasing consumer awareness, higher disposable income, increasing proportion of working women, affluence are going to influence the consumer’s attitude, belief and behavior towards the activity called shopping.