2.1 Growth of Indian Retail Business

Retailing is emerging as one of India’s most dynamic and fast paced sectors. The drivers of its upward growth trajectory such as favourable demographics, rapid urbanization, India’s booming economy and growing middle classes, explain why the Indian retail market is seen by both domestic and international retailers, as well as the property industry, as one of the globe’s greatest untapped market (IBEF, 2009).

India's nominal GDP was US$1.17 Trillion in 2008. Average annual GDP growth of 6.5% is predicted by BMI to 2013 (India Retail Report Q4 2010). With the population forecast to increase from an estimated 1.19 Billion in 2008 to 1.27 Billion by 2013, GDP per capita is expected to expand by nearly 59% by the end of the forecast period, to reach a projected US$1,563. The consumer spending per capita is for a rise from US$594 in 2008. Fig 2.1 shows the total sales in India from the year 2002 to 2008. The total retail sales was just 200 US $ Billion in the year 2002-02, but had grew tremendously to around 380 US $ Billion in the year 2007-08.
The Indian retail market is witnessing a migration from traditional retailing to modern/organized retailing formats, with an explosive proliferation of malls and branded outlets. Modern retailing outlets in India are increasingly becoming global in standards and are witnessing intense competition. The growth in the overall retail market will be driven, in large part, by the explosion in the organized retail market. By this, we mean the familiar Western concept of chain outlets, department stores, supermarkets, etc., and this segment accounted for US$12.1bn of sales in 2006, or 4.6% of the total retail segment (Investment Commission of India (ICI) data, 2008). BMI forecasts that organized retail sales will reach US$76.2bn by 2013, representing 10.7% of the total. Fig 2.2 shows, the growth in the overall retail market. Indian retail industry is poised to grow at a rate of 19 per cent over the next five years (Crisil, 2009). The Organised retail market in India is projected to grow to US$23 billion in 2009–10. The Organised retail segment is expected to grow from 5 per cent to about 7 to 8 per cent by 2012–13.
With a share of over 95 per cent of total retail revenues, traditional retailing continues to be the backbone of the Indian retail industry. Over 12 million small and medium retail outlets exist in India, the highest in any country. Traditional retail is highly pronounced in small towns and cities, with a primary presence of neighbourhood 'kirana' stores, push-cart vendors, 'melas' and 'mandis'. Organised retailing is growing at an aggressive pace in urban India, fuelled by burgeoning economic activity. An increasing number of domestic and international players are setting up base in the country and expanding their business to tap this growing segment.

The food and beverages segment accounts for the largest share, at more than 70 per cent of the total retail pie. Traditional retail dominates food, grocery and the allied products sector, with grocery and staples largely sourced from kirana' stores and push cart vendors. Food and grocery segment comprises 62 per cent of the $ 270 billion Indian retail market (India Retail Report, 2007). Only 0.8 per cent of this segment is in the organized sector and witnessed a year-on-year growth of 30.8 per cent in 2005-06 as against 2.2 per cent growth of the total food and grocery retail market (Dr. Paromita Goswami, Dr. Mridula S. Mishra, 2008). The apparel and
consumer durable verticals are the fastest-growing verticals. Mobile phones, supported by the growing telecom penetration in small towns and villages, are a major retail item with the addition of 10 million to 12 million mobile phone users every month. The home décor sector is witnessing rapid growth with the reducing average age of Indians buying homes. Beauty care, home décor, books, music and gift segments are gaining attraction, predominantly in the urban areas and emerging cities.

Organized retail in India is largely restricted to urban regions with consumer exposure to modern retailing formats such as malls and standalone stores, etc., for specific product categories. The clothing and textiles/apparel segment dominated the organised retail sector with revenues worth US$ 6 billion in 2007–08, contributing more than 27 per cent to the organised retail pie. Figure 2.3 shows the comparative penetration of the organized retail in various countries. While the penetration is maximum (85%) in USA, it is hardly about 4% in India. Penetration of organised retail in India is projected to increase to 7 per cent by 2012–13.

![Comparative Penetration of Organised Retail -2006](image-url)

**Figure 2.3** Comparative Penetration of Organized Retail
Grocery shopping refers to shopping for food and grocery products. According to an IIM, Ahmedabad working paper titled ‘Format Choice of Food and Grocery Retailer’ (Sinha, Mathew and Kansal, 2005) food and grocery shopping includes shopping for grains, pulses, fresh fruits and vegetables, packaged food, personal products and some household goods. The size of Indian retail market across various segments as on 2007-08 is shown in the Fig 2.4. It can be seen that apparel is one of the fastest-growing segment, with a high number of domestic and foreign brands, and increasing consumer willingness to pay for quality. Footwear has the highest organised retail penetration, primarily due to players such as Bata India Pvt Ltd and Liberty, who have wide distribution networks and who have developed customer confidence over the years (Ernst & Young, 2009).
Retail sector revenues are pegged to touch US$ 460.6 billion by 2010–11. Organised retail is projected to grow to US$ 41 billion by 2012–13. Modern retail is expected to adapt and imbibe from traditional formats. Unorganised retail formats are converging and combining in formats such as mushrooming village malls. Large Indian retail players have already begun formulating strategies for the rural retail space. (Fig 2.5)

**Figure 2.5 Changing Paradigm of Retail**

**2.2. Advantages of Retail Business**

Indians with an ability to spend over USD 30,000 a year (PPP terms) on conspicuous consumption represent 2.8% of the entire population. But with a population base of 1.07 billion people, this number amounts to 30 million people, a market next only to USA, Japan and China (Ernst & Young, 2007). While consumer demand is driving retail growth, it is in turn being driven by the following factors:

- **Growing Economy.** India recorded a gross domestic product (GDP) growth rate of 6.7 per cent in rupee terms during the year 2008–09.
The general index of industrial production (IIP) is projected to reach 275.4 for the year 2008–09 (base: 1993–94 = 100). The fast pace of GDP growth is, in turn, driving Indian consumerism, with Indian consumers today more confident and willing to splurge.

**The Young India.** Two-thirds of India's population is under 35 years of age and more than 60 per cent of the population will be in the working age group (15 to 60 years) until the year 2050 (Fig 2.6). The median age of 23 years, opposed to the world median age of 33, sets the emerging young India apart. India is home to about 20 per cent of the global population under 25 years of age (RBI Hand BOOK on Indian Economy 2008-09).

![Growing Young Population](image)

**Figure 2.6 Growing Young Population of India**

**Potential Untapped Market.** Organised retail penetration is on the rise and offers an attractive proposition for the entry of new players as well as scope for expansion for existing players. The diverse needs of the Indian consumer offer a spectrum of opportunities, spanning from
rural retailing to luxury retailing. India is home to one of the largest base of consumers, and a steadily rising rich and super-rich population (Mckinsey &Company, 2007)\(^7\). The availability of retail space and the growing trend of consumerism in emerging cities and small towns add to the attractiveness of the market (Jones Lang LaSalle Meghraj, (2007)\(^8\).

**Abundant Availability of Skilled Labour.** More than 37 million students were enrolled in about 152,000 pre-college institutes and over 11.6 million in around 21,000 higher education institutions (colleges and universities) in 2007–08. Retail management is a much sought-after stream among students, with more than 15 premier institutes offering specialised courses in retail management. The Indian Institute of Retail, New Delhi; the RPG Institute of Retail Management, Mumbai; and The Retail Academy, Ahmedabad, are some of the institutes focusing on the education needs of the retail sector.

**Low Cost of Operations.** Existing players are increasingly turning to tier-II and tier-III cities for opening retail establishments and manpower sourcing. These cities offer significant cost advantages in the form of low-cost skilled resources and attractive lease rentals/real estate prices. Well-educated small town graduates turning to urban cities for employment are ideal candidates for sales and marketing executive roles in modern organised retail formats. Figure 2.7 Indicates that with a labour cost of US $ 1192 per annum per worker, the labour cost in India is third lowest among the Asian countries after China and
2.3 Expansion of organized retail by format

Modern retailing has entered India in form of sprawling malls and huge complexes offering shopping, entertainment, leisure to the consumer as the retailers experiment with a variety of formats such as discount stores, supermarkets, hypermarkets and specialty chains. The various formats of the organised retail in India are discussed below.

Malls

This is the largest form of organized retailing today and is located mainly in metros and in proximity to urban outskirts. The area of the malls ranges from 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment.
Department Stores

Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. These are further classified into localized departments such as clothing, toys, home, groceries, etc. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India.

Discount Stores:

As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non perishable goods. Bata, Weekender and arrow come in this category.

Convenience Stores

These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium.

Multi Brand Outlets

Multi Brand outlets are also known as Category Killers and offer several brands across a single product category. These usually do well in busy
market places and Metros. Examples are Vijay Sales, Apana Bazar, Viveks etc.

**Specialty Stores**

Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

**Hypermarts/Supermarkets**

These are large self service outlets which cater varied shopper needs and are termed as Supermarkets. These are located in or near residential areas. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified in to mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from of 3,500 sq ft to 5,000 sq ft. having a strong focus on food & grocery and personal sales. The key players in this segment are Big Bazaaru and Spencers.

The modern retail formats are encouraging development of well-established and efficient supply chains in each segment. This ensures efficient movement of goods from farms to kitchens, which in turn will result in huge savings for the farmers as well as for consumers. The most favoured format is hypermarket route and as of now forms the backbone of the organised retail sector in India. Estimates indicate that this sector will have the potential to absorb many more hypermarkets in the next four to five years.
2.4 Policy framework

Realising the potentials of retail industry in job and revenue generation, the Indian Government has embarked on a host of policy initiatives. To promote larger investments, FDI up to 100 per cent is allowed under the automatic route for cash and carry wholesale trading and export trading, and FDI up to 51 per cent is allowed with prior government approval for retail trade in single-brand products. However, FDI in retailing of goods under multiple brands, even if the goods are produced by the same manufacturer, is not allowed under the current guidelines. Available routes for foreign players to enter the retail sector:

1. **Strategic license agreements.** This route involves a foreign company entering into a licensing agreement with a domestic retailer or partnering with Indian promoter-owned companies.

2. **Franchisee route.** This entry route is widely used by many international brands, which opt for the master franchise route and the regional franchise route for an entry into India.

3. **Cash and carry Wholesale Retailing.** 100 per cent FDI is allowed in wholesale trading, which involves building a large distribution network.

4. **Manufacturing.** A company can establish its manufacturing unit in India along with standalone retailing outlets.

5. **Distribution.** An international company can set up a distribution office in India and supply products to local retailers. Franchisee outlets can also be set up by this route.
6. **Joint ventures.** International firms can enter into agreements with domestic players and set up base in India. The share of MNCs is restricted to 49 per cent in this route.

**Related Liberalization for Indian Retailing.** Value-added tax (VAT) has been introduced and implemented in most states and Union Territories, and across most industry segments (except a few such as textiles) to resolve multiple taxation issues and maintain uniform prices across geographies. In addition, octroi has been abolished in many states to further trade in the retail sector. Labour laws in India are under the scanner for higher liberalisation, with the government relaxing certain norms or permitting flexibility in the laws for emerging retail hubs such as Bangalore and Hyderabad. Laws such as restriction on working hours, mandatory closure of the store once a week, etc., are being modified to suit the modern retailing context, while ensuring that there is no adverse impact on the benefits for employees.

Efforts are being made by the government to reduce impediments by introducing a single-window clearance mechanism. This would reduce the entry and establishment timelines for new players in the market and facilitate timely and hassle-free approvals. The government is expected to adopt a calibrated approach in land and rent reforms to improve the real estate regulatory environment and facilitate easy access to retail space for international investors. The government is releasing large tracts of undeveloped land for retail development in Mumbai and the National Capital Region (NCR). Other state governments are expected to follow suit, with associated benefits for them in the form of access to impressive revenues.
from sale of land and tax collection from retail development. Problems related to lease rentals and pro-tenancy laws significantly deter international investors. The government is pursuing possible solutions to these problems with initiatives such as special economic zones (SEZs), allotment of government-controlled land, etc.

The Agricultural Produce Marketing Committee Act (APMC), which curtails direct sourcing of agricultural produce (grocery, food grains, etc.), is proposed to be amended soon, with a draft model act being legislated by the government. The new act promotes direct marketing to corporate by farmers, setting up of farmer-consumer markets and contract farming. The government is encouraging contract farming, as it provides incentives to both the farmers and the corporate retailer, with the former gaining access to a larger market and the latter to a direct raw material procurement source at competitive prices. The government is currently pursuing the development and modernisation of eight strategically located mandis in Delhi, Punjab, etc., that will have cold storage, sorting and grading facilities.

2.5 Key Trends and Drivers

Maturing Metros and Cities. As can be seen from Figure 2.8, India has a large percentage of middle income group (NCAER, 2009). The trend is similar when it comes to the owner ship of Television, Refrigerator and car (Figure 2.9). While India's top 20 cities account for just 10 per cent of the country's population, they earn more than 30 per cent of the country's income and spend 21 per cent of the country's total income. From the point of view of
India’s marketing firms, the top 20 cities and their growth are clearly of paramount importance.

![India’s Income Class Distribution](image)

**Figure 2.8 India’s Income Class Distribution**

![Ownership among Households](image)

**Figure 2.9 Ownership among Households**

Delhi/NCR, the fashion capital of India and home to the highest number of rich and super-rich households, is expected to contribute close to US$ 26 billion in 2009–10 to retail revenues (CRIS INFAC, 2009). The NCR is projected to account for close to US$ 34 billion of retail revenues by 2012–13. As per Ernst & Young (2008), the NCR has the highest mall space availability and the highest number of affluent households (Figure 2.10). Home to a large
percentage of high net worth individuals, Mumbai is expected to contribute close to US$ 23 retail revenues in 2009–2010. The retail opportunity in the metro is projected at US$ 31 billion for 2012–13. Mumbai is home to different income groups, from the aspirants to the super rich, each contributing significantly to retail revenues through various retailing formats.

![Total Number of Malls in Top Seven Cities](image)

**Figure 2.10 Total Number of Malls in Top Seven Cities**

**Emerging Retail Hubs** - Bangalore, Hyderabad, Chennai and Kolkata are projected to contribute US$ 27 billion to retail revenues in 2009–10, and the revenues are projected to touch US$ 34 billion by 2012–13 (CRIS INFAC). Similarly, retail activity in Bangalore, Hyderabad and Chennai is also growing at an exceptional rate, with a phenomenal increase in mall space (Jones Lang LaSalle Meghraj Research, 2007). Most of the retail sector giants have a footprint in these cities and have plans of expanding base owing to the rapid transition of households from the lower-income group to the higher-income group. Disposable incomes in these cities have increased rapidly over the years, in large part because of the growing presence of IT/ITeS businesses in
these cities. Bangalore is considered the Silicon Valley of India, with nearly all domestic and international IT giants having a presence there. These cities are projected to experience continued, robust economic growth in the coming years.

**Metros-in-the-Making.** The emerging and potential cities (tier-I and tier-II) are projected to contribute about US$ 27 billion to retail revenues in 2009-2010. The combined retail potential of these cities is expected to soar to US$ 33 billion by 2012–13 (CRIS INFAC). 52 leading towns are likely to emerge as retail hubs by 2011 with tier-III towns gaining the market potential to host five or more hypermarkets. The retail potential of cities with a million plus population is based on indicators like capita income, savings and expenditure; household profile and economic growth measures. These indicators enable a quantitative appraisal of each city’s demographic and economic fundamentals, and provide an indicator of their potential to develop as vibrant retail locations. Based on the study the cities were classified into High-Growth cities, Emerging Cities and Nascent cities (Exhibit 2.1).

Evolving consumer behaviour- Supported by the various key drivers discussed above the Indian consumers is evolving. The conventional markets are fast adapting themselves to the changing needs of the customer due following:-

- **Changing face of Indian consumerism.** Lifestyle patterns of India’s middle class are being redefined with the adoption of western values and growing brand consciousness. From a 'saving' to a 'spending' mindset, the face of Indian consumerism is buoyant.
There has been a marked increase in the number of new entrants and in retail revenues across all verticals.

- **Integrated retailing formats.** Retailers are rapidly integrating and diversifying to modern retailing formats such as Malls, Department stores, Discount shops and Cash& carry, to cater to emerging trends in consumer behaviour. Food Bazaar stocks staples in bulk, weighing and packing them for customers in their presence, catering to the ‘touch and feel’ mindset of buying staples. Retailers are expanding into emerging cities with modest store formats as opposed to the glitzy mall formats adopted in metros.

- **Higher disposable incomes.** Disposable incomes are on the rise with the economy providing new avenues of employment in IT/ITeS and other sunrise sectors such as biotech, hospitality, etc (Figure 2.11).

![Figure 2.11 Growth in Personal Disposable Income](image)

**Figure 2.11 Growth in Personal Disposable Income**

- **Increasing Urbanization.** India’s urban population is estimated at 286 million, constituting 27.8 per cent of the total population in
2001. Urban population is projected to increase to 468 million, constituting 33.4 per cent of the total projected population of 1,200 million by 2010–11 (Handbook of Statistics on Indian Economy 2008-09, 15 September 2009"). The increase in the number of young employed executives and the thinning gender divide is stimulating the growth of modern retailing in urban areas.

Easy credit: Banks and financial institutions have increased their range and volume of retail credit and service offerings. The cash reserve ratio (CRR) as on July 31, 2009, was 5 per cent, compared to 8.75 per cent on August 1, 2008. Bank credit to the commercial sector in 2009 increased 15.5 per cent as compared to 2008. The growing acceptance of plastic money across small and medium retail outlets has been observed. Home loans and personal loans are surging, with banks and agencies issuing loans with attractive interest rates and easy monthly instalment options. Figure 2.13 and 2.14 indicates the growth in the volume of transaction of credit card a debit card respectively.

![Figure 2.12 Growth in Volume of Credit Card Based Transaction](image-url)
2.6 Organized vs. Unorganized Retail Sector in India

It is a matter of debate as to whether Indian Kirana stores would be able to survive in the face of competition from organized modern trade grocery retailers. Although traditional retail currently constitutes over 95 per cent of the total sales in the country, smaller kiranas that are unable to compete with new age retailers in terms of variety and scale have begun losing volume in several parts of the country (Vijayraghavan and Ramsurya, 2007).\(^{11}\)

Internationally, while some studies suggest that large scale retailers like Wal-Mart are responsible for widespread closings of mom & pop stores (Wal-Mart Watch, 2005; Basker, 2005)\(^ {12}\) and question whether cost to communities in terms of labour displacements and higher poverty is offset against benefits of lower prices and greater convenience (Goetz and Swaminathan, 2006)\(^ {13}\), other studies suggest that the process of creative destruction unleashed by Wal-Mart has had no statistically significant long-run impact on the overall size and profitability of the small business sector in the United States (Sobel and Dean, 2006)\(^ {14}\). In India modern trade or organized retailing already...
account for 30 to 40 per cent of grocery sales in the top 6-7 cities of the country. The Prime Minister’s Office (PMO) of India has initiated a study on the impact of retail giants on small retailers and this move has been welcomed by the Confederation of All India Traders (CAIT). As pointed out by Sanghavi (2007)\textsuperscript{15}, so far retailers, who focused on developing only supply-side efficiencies in terms of reaching retail productivity targets, need to think about demand-side efficiencies in terms of satisfaction of customers’ needs in order to optimize business performance. It is important to identify efficient levels of the various dimensions of satisfaction of customers’ needs that directly link to measures of specific firm outputs that firms intend to maximize in addition to supply side efficiencies (Blose et al, 2005)\textsuperscript{16}.

The study conducted by (Parotima Gosaami, 2009)\textsuperscript{17} to examine the demand-side efficiency in terms of dimensions of satisfaction of customers’ needs suggested that kiranas would do best to try and upgrade in order to survive. Given that modern trade outlets have deeper pockets and can afford to make mistakes and get away with it in the short term, kiranas have to stay alert, try to upgrade and continue to serve customers well, while concentrating on innovating, evolving and remaining efficient on retailer productivity scores.
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CLASSIFICATION OF CITIES BASED ON THEIR POTENTIAL FOR RETAIL GROWTH

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### LATEST STATISTICS ABOUT INDIAN RETAIL SECTOR

- **Even though India has well over 5 million retail outlets of all sizes and styles (or non-styles), the country sorely lacks anything that can resemble a retailing industry in the modern sense of the term. This presents international retailing specialists with a great opportunity.**

- **It was only in the year 2000 that the global management consultancy AT Kearney put a figure to it: Rs. 400,000 crore (1 crore = 10 million) which will increase to Rs. 800,000 crore by the year 2005 – an annual increase of 20 per cent.**

- Retailing in India is thoroughly *unOrganised*. There is no supply chain management perspective. According to a survey by AT Kearney, an overwhelming proportion of the Rs. 400,000 crore retail markets are *UNORGANISED*. In fact, only a Rs. 20,000 core segment of the market is organised.

- **As much as 96 per cent of the 5 million-plus outlets are smaller than 500 square feet in area. This means that India per capita retailing space is about 2 square feet (compared to 16 square feet in the United States). India's per capita retailing space is thus the lowest in the world (source: KSA Technopak (I) Pvt Ltd, the India operation of the US-based Kurt Salmon Associates).**

- **Just over 8 per cent of India's population is engaged in retailing (compared to 20 per cent in the United States). There is no data on this sector's contribution to the GDP.**

- From a size of only Rs.20, 000 crore, the *ORGANISED* retail industry will grow to Rs. 160,000 crore by 2005. The TOTAL retail market, however, as indicated above will grow 20 per cent annually from Rs. 400,000 crore in 2000 to Rs. 800,000 crore by 2005 (source: survey by AT Kearney)

- **Given the size, and the geographical, cultural and socio-economic diversity of India, there is no role model for Indian suppliers and retailers to adapt or expand in the Indian context.**

- The first challenge facing the organised retail industry in India is: competition from the unorganised sector. Traditional retailing has established in India for some centuries. It is a low cost structure, mostly owner-operated, has negligible real estate and labour costs and little or no taxes to pay. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector.

- **In contrast, players in the organised sector have big expenses to meet, and yet have to keep prices low enough to be able to compete with the traditional sector. High costs for the organised sector arises from: higher labour costs, social security to employees, high quality real estate, much bigger premises, comfort facilities such as air-conditioning, back-up power supply, taxes etc. Organised retailing also has to cope with the middle class psychology that the bigger and brighter a sale outlet is, the more expensive it will be.**

- **The above should not be seen as a gloomy foreboding from global retail operators. International retail majors such as Benetton, Dairy Farm and Levis have already entered the market. Lifestyles in India are changing and the concept of "value for money" is picking up.**

- **India's first true shopping mall – complete with food courts, recreation facilities and large car parking space – was inaugurated as lately as in 1999 in Mumbai. (This mall is called "Crossroads").**

- **Local companies and local-foreign joint ventures are expected to be more advantageously positioned than the purely foreign ones in the fledgling Organised India's retailing industry.**

- These drawbacks present opportunity to international and/or professionally managed Indian corporations to pioneer a modern retailing industry in India and benefit from it.

- The prospects are very encouraging. The first steps towards sophisticated retailing are being taken, and "Crossroads" is the best example of this awakening. More such malls have been planned in the other big cities of India.