CHAPTER – 2

OVERVIEW OF RETAILING

CONCEPTUAL FRAMEWORK OF PRIVATE LABEL BRANDS IN INDIAN RETAIL SECTOR

2.1 OVERVIEW OF RETAIL INDUSTRY

Retail is the sale of goods and services from individuals or businesses to the end-user. Retailers are part of an integrated system called the supply-chain. A retailer purchases goods or products in large quantities from manufacturers or directly through a wholesaler, and then sells smaller quantities to the consumer for a profit. Retailing can be done in either fixed locations or online. Retailing includes subordinated services, such as delivery. The term "retailer" is also applied where a service provider serves the needs of a large number of individuals, such as a public utility, like electric power.

Shopping generally refers to the act of buying products. Sometimes this is done to obtain necessities such as food and clothing; sometimes it is done as a recreational activity. Recreational shopping often involves window shopping (just looking, not buying) and browsing and does not always result in a purchase.

The retail industry is focused on the sale of goods or merchandise from a specific location for direct consumption by the purchaser. In today’s dynamic and shaky business world, the retail industry is constantly upgrading itself. With an endless array of customer choices, fierce competitors, pervasive use of the internet, and a complex global economy, retailers need to focus on finding ways to sustain and grow their businesses. Traditional growth models that focused on rolling out more stores and adding more product lines, no longer enjoy the return on investment they once did. Successful retailers are those who are able to adapt and change to the
environment and develop new ways of serving customers, respecting the dynamics of current trends and adapting accordingly.

2.1.1 Recent Trends of the Indian Retail Sector at a Glance

The retail sector of India has shown a phenomenal growth in the last decade. According to Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail. The recent announcement by Indian government in FDI in single brand and multi-brand has created positive sentiments in the retail sector.

The size of India’s retail sector is currently estimated at around $450 billion and organized retail account for around 5.0 percent of the total market share. Rating Agency Fitch has assigned a stable outlook to the retail sector for 2012 as factors like expected sales, growth-driven expansion and efficient working capital are likely to benefit retail companies. It is estimated that the retail sector would continue to grow at 10-12 percent per annum, which is extremely encouraging when the country’s economy is only projected to grow 6.0 per cent.

It is estimated that Indian consumer market is likely to grow four times by 2025. It is also noticed that India’s retail market has moved up to 39th most preferred retail destination in the world in 2009, up from 44 previous years. This indicates that India continues to be among the most attractive countries for global retailers.

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 compounded annual growth rate (CAGR) of 10.0 per cent. Consumer spending rose an impressive 75.0 per cent in the past four years alone. In the overall retail sector food and grocery is the dominant category with 59.5 per cent share, valued at 792,000 crore, followed by clothing and accessories with 9.9 per cent share. Interestingly, this reflects massive employment opportunities to youngsters in the services sector and accompanying changes in consumer lifestyles.
2.1.2 The Role of the Retail Industry

The presence of retail sector in India has been in limelight for the last few years. Its significance has been undoubted. Policymakers are quite optimistic that the evolution and steady maturation of organized retailing will take the economy to new highs. Besides, it will also help strengthen the linkages between the different sectors so as to break the vicious circle of poverty and ensure a bright future for the next generation. The benefit of retailing to general public includes growing awareness and brand consciousness.

The retail industry employs a huge share of the total workforce in India. It is the second largest employer after Indian Railways. Presently 7 percent of the total labour force is employed in the retail sector. According to available data it is also the largest employer in the services sector and maximum growth in the non-agricultural sector has been witnessed by retail trade. According to market analysts 300 new malls, 1,500 supermarkets and 325 departmental stores are going to come up in India in the next few days. The shopping revolution that has led to this retail boom is going to continue.

2.1.3 Growth Drivers In India For Retail Sector

- Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer’s tastes.
- Liberalization of Indian economy
- Increase in spending Per capita Income
- Advent of dual income families also help in growth of retail sector
- Shift in consumer demand to foreign brands like Sony, Panasonic, etc.
- Consumer preference for shopping in new environments
• The Internet revolution making Indian consumers more accessible to the growing influence of domestic and foreign retail chains.

• About 47% of India’s population is under the age of 20; and this will increase 55% by 2015. This young population contributes to the growth of retail industry in India.

• Availability of quality real estate and mall management practices.

• Foreign companies’ attraction to India is the billion-plus population.

2.1.4 Indian Retail Industry

The Indian Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country’s GDP and around 8 per cent of the employment. The Retail industry in India has come forth as one of the most dynamic and the fast paced industries with several players entering the market. But all of them have not tasted success because of heavy initial investments that are required to break even with other companies and compete with them. The Indian Retail Industry is gradually inching its way towards becoming next booming industry. The total concept and idea of shopping has undergone an attention drawing change in terms of formats and consumer buying behavior, ushering a revolution in shopping in India. Modern retailing has entered into the Retail market in India as is observed in the form of bustling shopping- centers, multi- storied malls and the huge complexes that offer shopping, entertainment and food all under one roof. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the service sector are going to be the key factors in the growth of the organized retail sector in India.

The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph. In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter newer markets, which in turn will help the Indian Retail
Industry to grow faster. Indian retail is expected to grow 25% annually. Modern retail in India could be worth US$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The future of Indian Retail Industry looks promising with the growing market, with the government policies becoming more favorable and the emerging technologies facilitating operations.

2.1.5 The ASSOCHAM Report on India’s Retail Industry

Organized retail which presently accounts for close to 4 percent of total market will increase its share to over 30 percent by 2013, offering huge potential for growth in coming years, says a study, ‘Indian Retailing-The way forward’.

The study brought by The Associated Chambers Of Commerce and Industry of India (ASSOCHAM), points out that retailing in India is characterized by a high degree of fragmentation with street markets and convenience stores (kiranas) accounting for more than 96% of retail business. There are over 10 million outlets, 96% of them are very small with an area of less than 50 Square meter.

The organized retail sector with emergence of new store formats is recording phenomenal growth and will completely revolutionize retailing over next 3-4 years. The changing structure and scale of retail will critically impact several industries immediately – the retail industry itself, manufacturing, real estate and in the long term, cascading effects will be felt on tourism, information technology and others.

Key market drivers, fueling retail growth will include rapid economic development of India which will positively influence future of retail industry in India since its economic performance in recent years have given rise to more affluent and demanding set of consumers. Consumers are increasingly becoming brand conscious due to greater exposure to western lifestyle and are another key target for retailers.
With rising income levels, contribution of Indian middle class to retail is likely to increase from existing 20 percent now to over 30 percent in next 3 years. Consumers in this segment are likely to spend a greater part of their incomes on further upgrading and diversifying their lifestyles and moving to higher margins under the age of 25 years. It is anticipated that close to 50 percent of their income would go towards retailing in this age group in future.

The study points out that while price has been a key motivator for many purchases among older generation, this notion is being dispelled by younger generation as they become more ostentatious in their purchasing habits, as this brand savvy urban population is likely to derive demand for lifestyle products such as perfumes, jewellery and watches. Therefore, growing consumerism will be a key driver of overall retail growth in India.

As per estimates made by ASSOCHAM, the organized retail in urban market is expected to grow at the rate of 50 percent to reach a value of 30 percent of the total retail market in India. Currently, the rural organized retail in India is at nascent stage with hardly a value of 2 percent of total organized retail but the industry expects it to grow over 10 percent by 2013.

Retail in India comprises various segments of which food and grocery is the biggest accounting for around 75 percent of total retail trade. In contrast, food and grocery accounts for minuscule proportion of organized retail penetration. While traditional street markets and kiranas remain the dominant formats, the assault by major retailers like Reliance and Tata into the sector will help to boost the share of sales through the organized route.

2.1.6 Promotion Of Retail Industry – Government Incentives

The organized retail sector has been primarily perceived to boom around big cities and metros. Opening of organized retail stores in areas other than Mumbai, Delhi, Kolkata, Chennai, Bangalore and Hyderabad, will enhance the shopping spirits of the common man not dwelling in metros. However, to ensure that the
benefits of organized retail percolate to other non-metro and rural areas, it is pertinent to provide tax benefits for opening up retail outlets in such locations.

The sector could also get a boost from fulfillment of their long-standing demand of benefits under Served from India Scheme (SFIS), similar to the incentives presently available to hotels, clubs and restaurants, i.e. a 10% customs duty scrip on free foreign exchange earnings through international credit card sales to foreign nationals.

The much awaited reduction/abolition of Central Sales Tax (CST) would favorably impact the expansion of the organized retail. Additional depreciation to the retail industry on the fixtures, furniture and integrated IT systems would pave way for modernization and up gradation of the retail sector.

The opening up of single brand retail sector will result in increase in the number of players and the consolidation in this sector is expected in the coming years. Further, the consolidation will also provide much needed kick-start for various operational issues that are staring at this sector.

The 100% foreign investment in single brand retail under government approval route requires mandatory sourcing of at least 30% from local artisans’ and small scale industries. To further provide stimulus to the value chain efficiencies and domestic small scale industry, fiscal benefits on the profits derived from the sale of local produce directly procured from these sources will support the government’s intention.

2.2 INDUSTRY SIZE

The size of retail industry in an economy depends on many factors and the level of consumer spending is the most important among these factors. The retail sector in India has grown by leaps and bounds in the last five years. The reason behind this growth has been the synergy of many propellants. However the growth is not always genuine as there are exaggerations as well. But these exaggerations also have benefits since they give a feel of growing competition all around. Secondly the
The present situation is just a depiction of nascent stage. The future of the trajectory may not be as steep as it is now or may be even slope downward. 'What will be the future size of the retail industry' is the mind boggling question. Another moot point that will gain importance in due time concerns the future of the unorganized retail market which constitute a significant proportion of the whole industry. The retail stores have proved to be a vantage point for the customers.

### 2.2.1 Retailing in India: the Present Scenario

The present value of the Indian retail market is estimated by the Indian Retail Report to be around Rs.12,00,000 crores ($270 billion) and the annual growth rate is 5.7 percent. Retail market for food and grocery with a worth of Rs.7,43,900 crores is the largest of the different types of retail Industries present in India. Furthermore around 15 million retail outlets helps India win the crown of having the highest retail outlet density in the world. The contribution of retail sector to the GDP has been manifested below.

<table>
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<tr>
<th>Country</th>
<th>Retail Sector’s Share in GDP (%)</th>
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<tbody>
<tr>
<td>INDIA</td>
<td>10</td>
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<tr>
<td>U.S.A</td>
<td>10</td>
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<tr>
<td>CHINA</td>
<td>8</td>
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<td>BRAZIL</td>
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**Table 2.1 Country Retail Sector's share in GDP (in %)**

Source: CII-AT Kearney Retail Study

Retailing in India is superior to those of its contenders. Retail sector is a sunrise industry in India and the prospect for growth is simply huge. There are many factors that have stimulated the rise of the shopping centers and multiplex-malls in a jiffy. Some of them can be listed as follows:
1. Rise in the purchasing power of Indians- the rise in the per capita income in the last few years has been magnificent. This has led to the generation of insatiable wants of the upper and middle class. The demand of new as well as second hand durables has risen throughout the country thus providing the incentive for taking up retailing.

2. Favourable to farmers- retailing has helped in removing the middlemen and has thus enhanced the remuneration to farmers. This is a new revolution in the agricultural sector in India and will go a long way in amending the condition of agriculture, a major concern among policy makers.

3. Use of credit- a typical Indian is most conversant with using credit cards than carrying money. These have led to a shift of the consumer base towards supermarkets and make the payments in the form of credit.

4. Comfortable Atmosphere- a visit to a retail store appears to be more soothing for the generation-Y. People and kids prefer to shop in an air conditioned tech savvy manner. The retail industry is the second largest employer in India. It currently employs about 7 percent of the total labour force in India. Finance Minister P. Chidambaram's recent statement “salaries ought not to be legislated” is a welcome move as most of the organized retail is in private hands. However only about 4.6% of the total retail trade is in organized sector. It generates about Rs.55, 000 crore ($12.4 billion). The major and minor players desperately need to work hard in this direction so that next time the figures look more decent. The government must also make an attempt to ameliorate the situation as political instability and infrastructure namely power and roads are the major roadblocks in the path of smooth functioning of the market.