Chapter 4

Overview of Retail trade in India

4.1 Introduction

4.2 Prospects of Retailing in India

4.3 Growth and evolution of organized Retailing in India

4.4 Key Drivers of Retailing in India

4.5 Contribution of Retailing to the Indian Economic scenario

4.6 Foreign Direct Investment (FDI) in Retail in India

4.7 Global Retail Scenario

4.8 The Road Ahead in India

4.9 Conclusion
Chapter 4

Overview of Retail trade in India

4.1 Introduction

The retail scenario in India is unique. Much of it is in the unorganized sector with one / two million retail outlets of various sizes and formats. Almost 96 per cent of these retail outlets are less than 500 square feet in size, the per capita retail space in India is 2 square feet compared to the US figure of 16 square feet. In India because of the increasing number of nuclear families, growing size of the working women segment greater work pressure and increase in commuting time, convenience has become a priority for Indian consumers. The consumers want everything under one roof for easy access and multiplicity of choice.

The Growth and development of organized retailing in India is driven by two main factors – lower process and benefits the consumers can’t resist. India is evolving rapidly into a competitive market place with potential target consumers in the rich and middle class segments. The market trends indicate tremendous Growth opportunities.

The Global Retail Development Index developed by A.T. Kearney has ranked India first, among the top 30 emerging markets in the world. There is a changing pace in India which is reflected in the Indian consumer his lifestyle and his habits. There has been estimation from Goldman Sachs that the Indian economic growth could actually

---

268“India’s retail reform: No massive rush”. The Economist. 2nd December, 2011.
exceed that of China by the year 2015. India has the potential to deliver the fastest growth over the next 50 years.\textsuperscript{269}

Emerging markets such as India and China are the final frontier for retail taking the focus away from saturated Western markets. Since 2001, 49 global retailers entered 90 new markets, but at the same time, 17 retailers left markets in 2005.

The Indian retail industry is valued at about $300 billion and is expected to grow to $427 billion in 2010 and $637 billion in 2015.\textsuperscript{270} Only three percent of Indian retail is organized. Retailers of multiple brands can operate through a franchise or a cash-and-carry wholesale model.

Retail is India’s largest industry, accounting for over 10 percent of the country’s GDP and around eight percent of employment. Retail in India is at the crossroads. It has emerged as one of the most dynamic and fast paced industries with several players entering the market. That said, the heavy initial investments required make break even hard to achieve and many players have not tasted success to date. However, the future is promising; the market is growing, government policies are becoming more favorable and emerging technologies are facilitating operations.

Retailing in India is gradually inching its way to becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping. Modern retail has entered India as seen in sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof.

The Indian retailing sector is at an inflexion point where the growth of organized retail and growth in the consumption by Indians is going to adopt a higher growth trajectory. The Indian population is witnessing a significant change in its demographics. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working-women population and

\textsuperscript{269} Indian Retail Industry: A Report”. CARE Research. March, 2011.

\textsuperscript{270} “Retailing in India Unshackling the chain stores”. The Economist. 29\textsuperscript{th} May, 2008.
emerging opportunities in the services sector are going to be the key growth drivers of
the organized retail sector.

Initially, this was about Indian corporate houses rolling out malls and supermarkets,
but with Wal-Mart coming into the Indian market, the era of the superstore is
dawning. Unlike the kirana stores that served us for decades, this new breed of retail
chains is heavily dependent on IT.

Wal-Mart, the world’s largest retailer, and Bharti Enterprises have signed a
Memorandum of Understanding (MoU) to explore business opportunities in the
Indian retail industry. This joint venture will mark the entry of Wal-Mart into the
Indian retailing industry.

The biggest competitor for Bharti-Wal-Mart is likely to be Reliance Retail, the retail
wing of Reliance, which had planned to establish 10,000 stores by 2010. It had
already opened 11 pilot stores under the “Reliance Fresh” format in Hyderabad.

All these trends and developments present a great business opportunity for software
and hardware vendors from across the globe. Indian solution providers are targeting
this segment have reason to rejoice. For while organized retail occupies a miniscule
two to three percent of the overall Indian retailing industry, that is poised to change.

In spite of the prospects being good things aren’t quite as rosy when it comes to
awareness of IT systems. In most cases, organized retailers in India have installed
solutions that help them automate transactional systems.

With the retail sector in India undergoing a transformation due to the entry of large
corporate houses, IT managers and CIOs are now looking forward to know how IT
can help them achieve the business goals of their organizations.

Standards-based architecture and software support all kinds of mission-critical IT
applications for enabling greater efficiency, significant cost savings, and new business
value. The critical activities that can be handled by IT are finance and accounting,
business intelligence, vendor development and management, supply chain
management, merchandising and inventory management, facilities management,
stores management, customer relationship management, branding, marketing, sales promotion and HR.

Like any other vertical, retail also stands to benefit from elaborate IT set-ups. However, this is subject to the scale and size of the organization, as well as an objective assessment of its requirements. Key common challenges that can be tackled through IT implementations include accurate merchandising, improved planning, and increasing profitability, enhancing customer experience, strengthening store operations, improved workforce management, and improving the supply chain. This is in fact one of the key imperatives facing retailers in India, to have a robust and scalable supply chain that will facilitate rapid growth.

Since a basic objective is to make data available to users and customers, proper IT implementation and superior IT infrastructure ensure that in spite of getting minimal details, the retailer captures the right information, which flows to everyone from the back office staff to the head office managers. The entire information flow must be seamless. A retail business works on a network environment because the stores connect to one another as well as to supplier sites. This is because in the retail business quick response is the key to success. Proper IT implementation also ensures that investment in retail reduces substantially.
As India surges high with its earning middle class, the retail sector in the country is bound to come across opportunities like never before. Till a few years the retail sector in India was more of an unorganized one with petty vendors dominating the chunk of the industry, but now the scenario has fast been changing. Finally the sector is converting into organized retailing, to avail this benefit not only Indian corporate majors (Reliance, Tata, ITC, etc.) who entered into the segment but it is foreign players who are showing more interest in USD400 billion Indian retail markets. Therefore today when one turns around there will be giant shopping malls and multiplexes all the way. So it is why the retail revolution is said to be spearheading the real estate boom in India. As shown in the figure the retailing stated its journey from having a rural approach with holding traditional outlook and gradually it started moving to have a government and modern approach slowly by entering into organized
sector. Table 4.1 specifies the advantages of both traditional or conventional and modern retailing and justifies the fact why modern retailing has captured the Indian economy.

### Table 4.1
Advantages of Conventional and Modern Organized Retail Reforms

<table>
<thead>
<tr>
<th>S.No</th>
<th>Conventional Modern Organized</th>
<th>Conventional Modern Organized</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Large Bargaining Power</td>
<td>Low operating cost and overheads</td>
</tr>
<tr>
<td>2</td>
<td>Proximity to consumers</td>
<td>Range and variety of goods</td>
</tr>
<tr>
<td>3</td>
<td>Long operating hours, strong customer relations, convenience and hygiene</td>
<td>Long operating hours, quality assurance (brand related and durability).</td>
</tr>
</tbody>
</table>


### 4.2 Prospectus of Retailing in India

A survey conducted by FCCI (Federation of Indian Chambers of Commerce and Industry) and Price Waterhouse Coopers predicted that the Indian retail sector will undergo a sea change in size as well as format during this decade. This survey indicated that the Indian retail industry by the year 2010 will operate in at least three to four formats, all scalable to size location and providing value to their target customers. With such diversity of formats that will allow the company to make use of its brand value across different segments and categories of customers.

In India today many organized retailers have launched many of their formats.

- Pantaloon Retail has ventured into home electronics, fashion wellness, beauty, books and music, e-tailing, etc in addition to their key formats of food and grocery and departmental store retailing.
- Shoppers Stop has expanded their formats base to hypermarket, airport retail, books and brand retail ventures such as mother care.

With these formats developing it is estimated that next five years, India should have retail entities with the help of these strong entities India can think of competing with the best in the World. With the formats like (departmental stores, hypermarkets, supermarkets and specialty stores) the Indian markets are getting popularity. These
formats are being increasingly accepted by the Indian, there also has been emergence of malls in India.

According to AT Kearney’s Global Retail Development India 2007 (GROI), India is the most attractive retail destination for global retailers. The annual AT Kearney GROI ranks thirty emerging countries on a 100 point scale. Therefore it shows that higher the ranking the more is the urgency to enter the market\textsuperscript{271}.

The growth of organized retails in India saw a remarkable growth in the area of employment i.e. the growth in Indian retailing provides jobs to roughly 15 percent of employable Indian adults and it is the biggest contribution to India’s GDP after agriculture. Seeing the growth potential of the industry, the Retailers Association of India (RAI) estimates that the sector would require almost 2.2 million people to be employed in retail by the year 2013\textsuperscript{272}. To grab this opportunity the organizations should look at the institutions offering retail education and training in India.

- Pantaloon Retail has tied up with many Business schools to jointly organize various educational programmes in Retail.

In order to establish the organized retailing in India the industry rakes all steps but the biggest task for organized retail organizations is to locate and recruit knowledgeable skilled and trained staff to handle their operations, so that they can stay ahead in today’s competitive and challenging retail world. If the organization needs to achieve this as a target then they must be properly equipped and trained.

**Emerging Retail Destinations**

With Growth in incomes, increasing size of middle class and India’s economy position against all odds in the last decade has resulted in retail revolution making the customer in real sense a “king” or “queen”. Due to rapidly increasing middle class in

\textsuperscript{271} Kearney, A.T, 8th Annual Global Retail Development Index (GRDI).

\textsuperscript{272} Kearney, A.T, 8th Annual Global Retail Development Index (GRDI).
terms of size and income has made India a favorite destination for foreign direct investment.

The Table 4.2 and Figure 4.2 mentioned below justifies the fact that the food and grocery, clothing, consumer durables and books and music sectors are the major retail sectors. However, it is been assumed that unorganized small outlets largely control the sector. Hence looking at the percentage given below show that there is tremendous potential for the organized sector in various formats, such as hypermarkets, supermarkets, specialty stores, category killers and discount chains. The diagram also shows that a large section of the organized outlets are captures by the clothing and textile section with a 37 percent followed by consumer durables with 20 percent and a certain section is taken over by food and beverages with 18 percent. This shows that there is a huge prospect for the organized retailing in India.

**Table 4.2**  
**Sector Wise Organized Retail Outlets Size**

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Retail Sectors</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Beauty Care (Products)</td>
<td>2%</td>
</tr>
<tr>
<td>2</td>
<td>Footwear</td>
<td>8%</td>
</tr>
<tr>
<td>3</td>
<td>Books Music and Gifts</td>
<td>3%</td>
</tr>
<tr>
<td>4</td>
<td>Food and Beverage</td>
<td>18%</td>
</tr>
<tr>
<td>5</td>
<td>Clothing and Textile</td>
<td>37%</td>
</tr>
<tr>
<td>6</td>
<td>Consumer Durable</td>
<td>20%</td>
</tr>
<tr>
<td>7</td>
<td>Home Décor and Furnishing</td>
<td>6%</td>
</tr>
<tr>
<td>8</td>
<td>Jewellery and Watches</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: AT Kearney’s seventh annual Globe Retail Development Index (GRDI), 2008.
4.3 Growth and Evolution of Organized Retailing in India

The Indian Retail Industry is the 5th largest retail destination and the second most attractive market for investment in the globe after Vietnam as reported by AT Kearney's seventh annual Globe Retail Development Index (GRDI), in 2008. The growing popularity of Indian Retail sector has resulted in growing awareness of quality products and brands. As it is seen, that the whole Indian retail has made life convenient, easy, quick and affordable. Indian retail sector specially organized retail is growing rapidly, with customer spending growing in unprecedented manner. It is undergoing metamorphosis. Till 1980 retail continued in the form of kiranas that is unorganized retailing. Later in 1990s branded retail outlet like Food World, Nilgiris and local retail outlets like Apna Bazaar came into existence. Now big players like Reliance, Tata's, Bharti, ITC and other reputed companies have entered into organized retail business.
The multinationals with 51 percent opening of FDI in single brand retail has led to direct entrance of companies like Nike, Reebok, Metro etc. or through joint ventures like Wal-mart with Bharti, Tata with Tesco etc.

Evolution of retail sector can be seen in the share of organized sector in 2007 was 7.5 percent of the total retail market. Organized retail business in India is very small but has tremendous scope. The total in 2005 stood at $225 billion, accounting for about 11 percent of GDP. In this total market, the organized retail accounts for only $8 billion of total revenue. According to A T Kearney, the organized retailing is expected to be more than $23 billion revenue by 2010.

The retail industry in India is currently growing at a great pace and is expected to go up to US$ 833 billion by the year 2013. It is further expected to reach US$ 1.3 trillion by the year 2018 at a CAGR of 10 percent. As the country has got a high growth rate, the consumer spending has also gone up and is also expected to go up further in the future. In the last four years, the consumer spending in India climbed up to 75 per cent. As a result, the Indian retail industry is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40 per cent. The key factors that drive growth in retail industry are young demographic profile, increasing consumer aspirations, growing middle class incomes and improving demand from rural markets. Also, rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes. Liberalization of the Indian economy, increase in spending per capita income and the advent of dual income families also help in the growth of retail sector. Moreover, consumer preference for shopping in new environs, availability of quality real estate and mall management practices and a shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc. also contributes to the spiral of growth in this sector. Furthermore, the Internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains. One

273 “Retailing in India Unshackling the chain stores”. The Economist. 29th May, 2008.

report estimates the 2011 Indian retail market as generating sales of about $470 billion a year, of which a miniscule $27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. 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 percent share\textsuperscript{275}. A 25 percent market share, given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year: a revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers.\textsuperscript{276}

The Economist forecasts that Indian retail will nearly double in economic value, expanding by about $400 billion by 2020\textsuperscript{277}. The projected increase alone is equivalent to the current retail market size of France. In 2011, food accounted for 70 per cent 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 percent and 30 percent per year\textsuperscript{278}. These data correspond to retail prospects prior to November announcement of the retail reform.

Organized retailing in India initially began in the South. The availability of land at prime locations coupled with lower real estate prices as compared to Mumbai and Delhi made multi storied shopping complexes possible.

Today South India specially Chennai and to some extent Bangalore and Hyderabad has emerged as a center of organized retailing. It has been seen that in Chennai nearly 20 per cent of food sales is accounted for by Supermarkets and an equal share of consumer durables is sold through specialty chains such as Vivek’s. Cities like

\textsuperscript{275} "Indian retail: The supermarket’s last frontier”. The Economist. 3\textsuperscript{rd} December, 2011.

\textsuperscript{276} Indian Retail Industry A Report”. CARE Research. March, 2011.

\textsuperscript{277} "India's retail reform: No massive rush”. The Economist. 2\textsuperscript{nd} December, 2011.

\textsuperscript{278} Kearney A T. Retail Global Expansion: A Portfolio of Opportunities”. 2011.
Mumbai and Delhi waited for two long years i.e. when recession erupted which brought down property prices in these cities and then big business houses took notice of the potential in retailing.

India is rapidly evolving into an exciting and market place with potential target consumes in both the rich and middle class segments. Manufacturer owned and retail chain stores are springing up in urban areas to market consumer goods in a style, which is similar to malls in more affluent counters.

Retailing is one of the fastest growing industries in India catering to the world’s second largest consumer market. It’s a Sunrise industry; it offers tremendous potential for growth and contributes 8-10 percent to overall employment. As India moves towards being a service oriented economy a rise in this percentage is expected. The number of the retail outlets is growing at about 8.5 percent annually in the urban areas and in towns with a population between 100,000 to 1 million. The growth rate is about 4.5 percent. The change in Indian consumer’s behavior and a growing supply base in India and from other countries, the retail sector in India is poised for a significant change in the coming decade.

The boom in retailing has been confined primarily to the urban markets. It’s because of two reasons, firstly the modern retailer is yet to exhaust the opportunities in the urban market, and therefore it has not looked at other markets seriously. Secondly the modern retailing trend despite the cost effectiveness has come to be identified with lifestyles. In order to appeal to all classes of the society retail stores need to identify with different lifestyles. Therefore it can be assumed that the retailing revolution is emerging along the lines of the economic evolution of the society.

**Retailing in 1990s**

On account of the liberalization drive in the 1990s, several structural and demographic changes that are taking place are helping the industry to grow. The GDP has grown by 6.6 per cent in the last decade resulting in increased income levels and higher purchasing power for the population. Increasing literacy levels, increasing
number of working women, increasing urbanization, higher international travel by Indian population and increasing media penetration has raised aspiration levels of the population, resulting in demand for better shopping experience and larger variety of goods. India has close to 54 per cent of population below the age of 25, which translates into higher prospects for increased consumption levels in the future. Finally, interest rates have also declined in the past few years further propelling the consumption demand. These factors were the key drivers for the retail wave in the country. Notable among the early entrants were players like Shoppers Stop, Pantaloons, Ebony, Foodworld, Subhiksha, etc. Initially, the growth in organized retail was very slow and concentrated mainly in metros, with south India holding its ground as the pioneer in organized retail growth, on account of the low cost of real estate. Due to the high investments required in the early stages and the fact that real estate was the key deciding factor for success of stores, real estate developers have been the major players in the industry. In the early 1990s, as the players were lower down on the learning curve many faltered in their models, and growth of the industry remained slow. The second half of 1990s saw several players making losses and exiting from the business. The worst for the industry were 2000 and 2001, as the stock market downturn, which reduced customer confidence and spending, had a direct impact on the performance of the industry. The industry recovered starting 2002. It now appears the efforts and learning’s of the players in the last decade are beginning to pay off; the organized retail industry has established firm roots and is beginning to grow.

- Current size of organized retail

The total private final consumption expenditure of India stood at Rs 15 lakh crore in 2001-02. Of this, close to 65 per cent is spent on goods and services bought off the shelf. Currently, the Indian retail industry is estimated to be close to Rs 9 lakh crore and the market estimates the size of the organized retail industry at close to Rs 17,500 crore accounting for close to 2 per cent of the overall retail industry\(^\text{279}\).
The emerging trends in the Indian organized retail sector would help the economic growth in India. There is a fantastic rise in the Indian organized retail sector in a very short period of time between 2001 and 2006. Eventually, out of the shadows of the unorganized retail sector, India has a chance of tremendous economic growth, both in India and abroad. The emerging trends in the Indian organized retail sector are also adding up to the development of the Indian organized retail sector. The relaxation by the government on regulatory controls on foreign direct investments has added to the process of the growth of the Indian organized retail sector.

The infrastructure of the retail sector will evolve radically in the recent future. The emergence of shopping malls is increasing at a steady pace in the metros and there are further plans of expansion which would lead to 150 new ones coming up in India by 2008. As the count of super markets is going up much faster than rate of growth in retail sector, it is taking the lions share in food trade. The growth of the Indian organized retail sector is anticipated to be heavier than the growth of the gross
domestic product. Alterations in people's lifestyle, growth in income levels, and encouraging conventions of demography are proving favorable for the new emerging trends in the Indian organized retail sector.

The success of this retail sector would also lie in the degree of penetration into the lower income strata to tap the possible customers in the lowest levels of society. The demands of the buyers would also be enhanced by more access to credit facilities. With the arrival of the Transnational Companies (TNC), the Indian retail sector will undergo a transformation. At present the Foreign Direct Investments (FDI) is not encouraged in the Indian organized retail sector but once the TNC'S get in they inevitably try to oust their Indian counterparts. This would be challenging to the retail sector in India.

The trends that emerged during 2012 has been shown in chart 4.1, giving a clear indication of presence of formats Apparel, Fashion and lifestyle, Pharmaceutical and also Beverages.

**KSA technopark suggested that the organized retail trade has four year path and India falls in the second year plan and it started matching the global Standards from 2010.**

**The four stages are described below:**

**First Year - The Stage of Infancy**

This stage includes the super Bazaar a concept focusing on price control which started during the inflationary period of the 1960s. The development of the modern retail industry begun when Indian shoppers upgraded from local shops to super Bazaars. During this stage the open layout and self service concepts developed and it was a new concept to the Indian consumer, who was used to being served while shopping.

This gave the new breed retailers an opportunity to differentiate on the basis of good quality products, services and ambience. This level took care at retailers driving customer awareness. This model primarily is applied to apparel more than any other form of retailing. It is completely driven from the demand side and not on the supply side.
Second Year - This stage includes meeting customer expectations

This stage is consumer driven where buyers are exposed to new retail expanding to multiple locations (e.g. Shoppers Stop, Subhiksha etc. who expand their networks as well as their locations) convenient timings, dial-n-order free parking, provision for trial and taste, prices below MRP (maximum retail price) free home delivery and no questions asked return policies etc are few new forms of stores. This stage also saw the development in areas like taking care of the kids while the mother shop, vending machines and entertainment for those accompanying serious shoppers, there was also saw a special development on human iterant grounds convenient floor levels for the physically handicapped. There is presence of pure retailers like Westside and lifestyle who provide a unique selling proposition of choice and width. They also capture a higher share of the organized retail formats and cut across all categories. This stage also saw certain development in product and created a unique selling proposition in the minds of consumer like Barista in coffee, Pizza Hut and Mc Donalds in quick service formats, Agrani switch in technology products. Global retailers like Marks and Spencer and Mango are evincing interest in India with their pilot projects. The Year II was a period of growth. India is currently in this stage.

This stage is also dominated by the apparel retail market in India is a little more evolved than the rest. Therefore it is seen that apparel retailing is said to be in the second year and other sectors like electronics, food etc are still in the first year.

Third Year - This is a stage which shows the shift in the power equation between manufacturers and retailers

In this stage it is the retailers who exert more influence than the manufacturer and also have a stronger bargaining power. This stage also involves efficient back end management. Here the retailers exploit economics of scale and offer the best price to their customers. The focus basically is on customer acquisition and category management. The priority is cost savings in terms of initiating vendor partnerships and increasing stock turns. Retailers expand into non metros and look at various customer loyalty programmes.
Therefore there is a distinction mark of this phase it is efficiency, profitability through heavy investment in the back end.

For example: Aldi, a grocery chain in Europe and US can be termed as a Good example of retail efficiency and can be placed in the third year.

**Fourth Year - This stage involves a period of consolidation**

This is a stage where there is a start of Cross border movement. With mergers and acquisitions which are gaining importance. The organized sector in this stage acquires a significant share of the retail price.

For example - Retailers in North America and Europe like Wal-Mart, Tesco, MSS and Carrefour fall in this year. Here companies start adding more stores and newer markets to their portfolio there is also a fair degree of domestic consolidation as well and sourcing yet done globally.

With the analyzing of the four stages it has been understood that retailing in India has a very long haul ahead. The process of getting into newer forms of purchasing has been gradual because of traditional buying habits and the manner in which traditional retailers manage relationships.

India is going through that phase in retailing which US experienced in the eighties and early nineties. There is no specific international format or an existing role model that can be easily adopted and applied in the Indian context. Therefore in order to have a right proposition the organizations need to go through the learning curve.

The growth development of organized retailing in India will be driven mainly by two factors they are low price and benefits that the consumers cannot resist. Economics of scale will drive down the cost of the supply chain and increase the benefits offered to the customer. Gradually in India the future trend will shift from product based shopping to experience based shopping. The growth of retailing will continue to be fuelled by the consumer, his expectations and demands for more value. Retail organizations are scaling up operations rapidly to minimize costs and increase margins so that they can sustain / expand their business.
4.4 Key Drivers of Retailing in India

India is currently the ninth largest retail market in the world. The Indian retail market is estimated at US$ 350 billion and organized retail accounts for merely 2 per cent to 3 per cent out of the total retail market in India. This, more than anything underlines the tremendous scope for growth in organized retailing in the years to come.

Retailing in India has witnessed tremendous growth in the last few years. Organized retail in India is on a high growth path and is expected to grow at a CAGR of 40 per cent over the next few years and by 2015 it is expected to grow to US$ 22 billion\textsuperscript{280}.

Modern retail has entered India as seen in sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof. Growth in Indian retail has been driven by the country's economic fundamentals over the past few years. Increasing number of nuclear families, easy financing options, increase in the population of working women and emerging opportunities in the service sector during the past few years have been the key growth drivers of the organized retail sector in India.

Consumers are now showing a growing preference for organized retail, resulting in increased penetration.

**Following are the factors that have and will continue to drive growth of the organized retail sector.**

I. Changes in demographics

India has the lowest median age of 24 as compared to developed countries like USA, UK, and Japan etc. The composition of the Indian population is shifting towards the age group of 20-49 i.e. the working population with purchasing power. Approximately 60 per cent of the Indian population is below 30 years of age. Thus,

\textsuperscript{280}IBEF.
India has the largest 'young' population in terms of sheer size and this young segment is the major driver of consumption as they have the ability (disposable income) and willingness to spend.

II. Consumer Pull

In the Pre liberalization supply led market the power rested clearly with the manufacturers. Today it is demand led market it’s the consumer who calls the shots. Since past decade there has been a significant evolution in the Indian consumer. Accordingly the consumers can be divided into two broad segments.

High Income Segment – This is a segment which comprises consumers who do not shop themselves and have a very low level of involvement and whose monthly grocery bills are very small part of the salary. Middle and Lower income group – This segment consists of consumers who are highly involved in grocery shopping. This expenditure constitutes 50 percent or more of the monthly salary. The people of this segment are value conscious who constantly look for bargains, and it consists of active shoppers.

III. Rising income levels

India is the second fastest growing economy in the world. A larger number of households are getting added to the consuming class with growth in income levels. Increasing instances of double incomes in most families coupled with the rise in spending power which is further fuelling the growth of retail sector. Therefore it also has been seen in the past India’s middle and high income population has grown at a rapid pace of over 100 percent per annum. This growing high income population is triggering the demand for consumer goods which is leading to the population of higher quality/ higher priced products resulting in growth of retail industry.

IV. Changes in consumer needs, attitudes and behavior

The growth of modern retail is linked to consumer needs, attitudes and behavior. Rising income levels, education and global exposure have contributed to the evolution
of the Indian middle class. As a result, purchasing and shopping habits have been inculcated and are increasing day by day. Historically, Indians have not been the ones to splurge on luxury items. Today, people are willing to try new things and look different, which has increased spending on health and beauty products apart from apparels, food and grocery items.

V. Increased credit friendliness

There has been a radical change in the Indian consumers' mindset regarding credit. With the easy availability of credit and declining interest rates, personal credit has witnessed growth. The boom in financing has resulted in an increase in spends on housing and consumer durables such as two-wheelers and cars. The use of plastic money (credit and debit cards) has increased significantly in the last 3-4 years. In fact the ease of payments (ability to spend without cash) due to the use of credit and debit cards, has also led to an increase in total spending on shopping and eating out. The total number of debit and credit cards issued in India in FY06 was estimated to be around 47 m and 18 m respectively. Indians withdrew nearly US$ 50 bn using credit cards from ATMs in 2005. This includes US$ 26 bn through Visa credit cards alone. Visa saw a 36 per cent growth in the number of cards issued, making India the third biggest card market for Visa, after Japan and Korea (Source: IBEF). With the acceptance of and the increase in the number of electronic data converter machines installed in retailing outlets, credit and debit cards will provide further fillip to organized retail.

VI. Explosion of media

This also had been a key driver in the growth of retail industry in India. The explosion in media was due to the kick start by the cable explosion during the Gulf war, television has accelerated to a point where there are more cable connections than telephones in Indian homes (i.e. 225 million vs. 23 million) about 70 channels are being aired at all times.
VII. Increasing awareness of Indian consumers

Over the years, as a result of the increasing literacy in the country, exposure to the west, satellite television, foreign magazines and newspapers, there is a significant increase in consumer awareness among the Indians. Today more and more consumers are selective with regards to the quality of the products/services.

Growth in Indian retail has been driven by the country's economic fundamentals over the past few years. Increasing number of nuclear families, easy financing options, increase in the population of working women and emerging opportunities in the service sector during the past few years have been the key growth drivers of the organized retail sector in India. Consumers are now showing a growing preference for organized retail, resulting in increased penetration. The retailing sector is at an inflexion point where the growth of organized retailing and growth in consumption by the population is expected to take a higher growth trajectory. Going forward, we believe that accretion to income levels of the rising Indian middle class (represented by the financially independent young population) and the consequent rise in disposable incomes will fuel growth of the retailing sector.

4.5 Contribution of Retailing to the Indian Economic Scenario

India is in the process of rapid change since economics liberalization in July 1991. There was a spring in its step as the country had discovered a new confidence in itself and became more outward looking. The global competitive playing field is changing and India feels it has a new role to play as a source of highly skilled labour and innovative technologies are boosting its confidence that it can play and bring changes in the economic conditions.

This strong economic growth has led to an income demand for credit, both from the retail and industrial segments. India has world class organizations which are recognized as potent competitors worldwide.

To understand the contribution of retailing to the Indian economic scenario the following description needs to be considered:
• **Demographic Edge:**

Indian economy with changes has had a deep impact on the mindset and spending patterns of Indian consumer. The onset of Retail industry has created a difference in the young and ambitious Indian consumer who aspires to fly higher than the previous generation.

India’s GDP growth represents a fighting fit economy which can be understood with the help of the following table:

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Year</th>
<th>GDP growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2002-03</td>
<td>4.6</td>
</tr>
<tr>
<td>2</td>
<td>2003-04</td>
<td>8.5</td>
</tr>
<tr>
<td>3</td>
<td>2004-05</td>
<td>7.5</td>
</tr>
<tr>
<td>4</td>
<td>2005-06</td>
<td>8.1</td>
</tr>
<tr>
<td>5</td>
<td>2006-07</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Source: KSA Technopark study on India’s retail, 2007.

As mentioned in the table 4.2 it has been seen that there has been a steady growth in the year 2002 to 2003 and gradually there was almost double increase in GDP but suddenly there was a drip in the year 2004-05 which was due to the recession that captured the Indian economy. The global economic slump has had its impact on the India retail sector. One of the earliest players in the Indian retail scenario Subhiksha's operations came to a near standstill and required liquidity injection. Vishal Retail secured corporate debt restructuring (CDR) plan from its lenders while other players like the Reliance Retail run by Mukesh Ambani and Pantaloon led Kishore Biyani by went slow on expansion plans and even scaled down operations. However, during the last quarter a bit of confidence was restored as the economy showed signs of growth. Therefore it could be seen that from 2004-05 the economy could see a gradual increase in the GDP percentage that was because of the onset of organized retailing in
India and with the table mentioned above it could be analysed, GDP growth has been averaging 8 per cent in the last three years.

The retailing in India created a revolution in consumer spending which has hit an all time high. The plastic money and cheap consumer loans are driving the unprecedented growth in consumerism.

The spend pattern of today’s youth (especially in the age group 17-25 years) indicates that apparel has the highest allocation, followed by fashion, lifestyle brands, sportswear, gifting and travel. The younger generation also shows a marked preference for convenience and online shopping and is increasingly brand conscious.

There has been incredible growth in credit card customer base which has zoomed from 3.2 million to 12.2 million in the last 5 years. With the growth in retailing customer spending on cards has nearly been doubling every year. Therefore customers across the country spent nearly Rs 6400 crore only during 2005-06 which shows the impact created by the retailing industry in India.

The growth of organized retail in India is leading to a record height. The fastest growth sector in the Indian economy. Retailing is one of the big sectors that have been liberalized by the government of India. The sizeable numbers of the Indian middle class and an untapped retail industry are the main attractions for global retail giants who want to enter the country. Studies indicate that gradually there will be quality retail space available across India. Out of 700 new malls coming up all over India, 40 percent are concentrated in tier II cities. Organized retailing in small town India is growing at a staggering 50-60 percent a year compared to 35-40 percent in the large cities.

What makes Indian companies unique is their ability to operate despite several constraints like inadequate infrastructure and other demanding price conscious customers. These constraints have forced companies to innovate on products processes and distribution, which in turn has created companies that are to offer superior products and services at a fraction of the cost anywhere else in the world. This has effect India the global edge in retail and services.
4.5.1 Opportunities and Threats to Indian Retail Industry

The huge population, increasing per-capita income and changing consumer habits - all these developments have culminated in the booming of the retail sector in India. Like many others industries, the Indian retail sector is also dominated by the unorganized sector. Almost every road and street, there is a general store or a kirana shop after every hundred steps. And it is in these huge numbers that the Indian unorganized retail industry finds its protection. The government view is that the entry of the organized retail, especially the FDI led variety, will threatens these numbers. The powerful trade unions across the country have also been persistent against the entry of organized retailers and FDI in this sector. The organized sector, identified as malls/multiplexes/supermarkets is still at a nascent stage, and is unlikely to prove a threat to the unorganized sector for many, many years to come. The retail sector itself is growing so fast that it will absorb any fresh additions to the supermarkets very easily and the unorganized sector will still continue to grow.

India is one of the youngest and largest consumer markets in the world with a median age of around 25 years, which is the lowest as compared with other countries. According to estimates, India’s median age would be 28 by 2020\(^{281}\). It is expected that over 53 percent of the population will be under the age of 30 by 2020, which means that the potential for the Indian retail segment will be enormous. This generation will be more dynamic than the previous generations because their consumption is driven by wants rather than needs. Thus, the organized retailing, which thrives on lifestyle products, is expected to receive a boost because of the young population by 2020. By 2015\(^{282}\), the middle class is expected to constitute around 25 percent of total households and account for 44 percent of the total disposable income, and by 2025, the respective figures are likely to go up to 46 percent and 58 percent\(^{283}\). The Indian middle-class population and their growing disposable income levels will drive the future growth of organized retail in India. There has been a substantial increase in the

\(^{281}\) www.scribd.com-retail project

\(^{282}\) www.spjimr.org

\(^{283}\) www.ibef.org
number of Indians who use the Internet and a concomitant increase in the number of online purchases. Indians have started using the Internet not only for increasing awareness but also to shop online, which has opened a whole new channel of retailing in the Indian retail scenario. The prime reason for a paradigm shift in the shopping attitude of the Indian consumer is the change in their preferences and tastes. Due to the increasing use of IT and telecom, Indian consumers have become aware of brands and shops for lifestyle and value brands according to the need and occasion. Consumers will continue to drive the growth in the organized retail by expanding the market and compelling retailers to widen their offerings in terms of brands and in terms of variety. Besides there are a number of opportunities which clearly vouch for the fact that India will continue to be dominated by small retailers for a long time to come. The organized retail sector that constitutes highly organized malls presently does not enjoying any significant share of the market revenue but it is estimated that future belongs to the organized retail sector in India. The opportunities of organized retail outlets have been mentioned in the diagram number 4.3 which clearly mentions that benefits of having organized retail outlets to the Indian economy.

**Figure 4.3**

**Benefits of organized retail outlets to the Indian economy**

![Diagram](image-url)
4.5.2 Challenges Facing Indian Retail Industry

The biggest challenge facing the Indian organized retail sector is the lack of retail space. With real estate prices escalating due to increase in demand from the Indian organized retail sector, it is posing a challenge to its growth. With Indian retailers having to shell out more for retail space it is affecting their overall profitability in retail. Trained manpower shortage is a challenge facing the organized retail sector in India. The Indian retailers have difficulty in finding trained personnel and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels. The Indian government has allowed 51 percent foreign direct investment (FDI) in the India retail sector to one brand shops only. This has made the entry of global retail giants to organized retail sector in India difficult. This is a challenge being faced by the Indian organized retail sector. But the global retail giants like Tesco, Wal-Mart, and Metro AG are entering the organized retail sector in India indirectly through franchisee agreement and cash and carry wholesale trading. Many Indian companies are also entering the Indian organized retail sector like Reliance Industries Limited, Pantaloons, and Bharti Telecoms. But they are facing stiff competition from these global retail giants. As a result discounting is becoming an accepted practice. These too bring down the profit of the Indian retailers. All these are posing as challenges facing the Indian organized retail sector. The challenges facing the Indian organized retail sector are there but it will have to be dealt with and only then this sector can prosper.
4.6 Foreign Direct Investment (FDI) in Retail in India

4.6.1 Introduction

The Retail Industry is the sector of economy which is consisted of individuals, stores, commercial complexes, agencies, companies, and organizations, etc., involved in the business of selling or merchandizing diverse finished products or goods to the end-user consumers directly and indirectly. Goods and products of the retail industry or sector are the finished final objects/products of all sectors of commerce and economy of a country.

The Retail sector of India is vast, and has huge potential for growth and development, as the majority of its constituents are un-organized. The retail sector of India handles about $250 billion every year, and is expected by veteran economists to reach to $660 billion by the year 2015. The business in the organized retail sector of India, is to
grow most and faster at the rate of 15-20 per cent every year, and can reach the level of $100 billion by the year 2015. Here, it is noteworthy that the retail sector of India contributes about 15 per cent to the national GDP, and employs a massive workforce of it, after the agriculture sector. India's growing economy with a rate of approximately 8 per cent per year makes its retail sector highly fertile and profitable to the foreign investors of all sectors of commerce and economy, of all over the world. Global Jurix, a full-fledged legal organization prominent worldwide, provides all-encompassing services and advice for most lucrative and secured FDI in Indian retail sector.

FDI as defined in Dictionary of Economics (Graham Bannock et.al.) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (‘RBI’) in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (‘FIPB’) would be required.
4.6.2 FDI Policy with Regard to Retailing in India

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a. FDI up to 100 per cent for cash and carry wholesale trading and export trading allowed under the automatic route.

b. FDI up to 51 per cent with prior Government approval (i.e. FIPB) for retail trade of ‘Single Brand’ products, subject to Press Note 3 (2006 Series).

c. FDI is not permitted in Multi Brand Retailing in India.

4.6.3 Strategic 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 has grown from 10 per cent to 40 percent in Brazil and 20 percent in China, while in India it is only 2 per cent (between 1995-2005). 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 percent. India still requires an FDI component equal to 4 percent of the GDP. The US

284 http://www.articlesbase.com
needs to invest more in various sectors of the Indian economy. As such, India is rated as the 2nd best economy to invest in, after China. India is looking forward to a high growth rate of almost 16 percent – double that of the current 8 percent. Hence, there is a distinct need for larger FDI. There are other necessities which a larger FDI will cater to viz., 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 liberalization 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 retails sector, reduction in tariff, cheaper real time communications, and cheaper transport. The main reasons for such an unequivocal demand stems from the realization that

i. 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,

ii. 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.

4.6.4 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\(^{285}\). Organized retail industry accounts for only 5.5 percent of total retail industry and is expected to reach 10 percent\(^{286}\) 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 percent to the national GDP and employing 7 percent of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy\(^{287}\).

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. As per the US Census Bureau, the young population in India is likely to constitute 53 per cent of the total population by 2020 and 46.5 per cent of the population by 2050 much higher than countries like the US, the UK, Germany, China etc. India’s demographic scenario is likely to change favorably, and therefore, will most certainly drive retail sales growth, especially in the organized retail segment. Even though organized retailers have a far lesser reach in India than in other developed countries, the first-mover advantage of some retail players will contribute to the sector’s growth.

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\textsuperscript{288}. 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.

### 4.6.5 Challenges for Global Retailers in Indian Retail Sector

History has witnessed that the concern of allowing unrestrained FDI flows in the retail sector has never been free from controversies and simultaneously has been an issue for unsuccessful deliberation ever since the advent of FDI in India. Where on one hand there has been a strong outcry for the unrestricted flow of FDI in the retail trading by an overwhelming number of both domestic as well as foreign corporate retail giants; to the contrary, the critics of unrestrained FDI have always fiercely retorted by highlighting the adverse impact, the FDI in the retail trading will have on the unorganized retail trade, which is the source of employment to an enormous amount of the population of India.

The antagonists of FDI in retail sector oppose the same on various grounds, like, that the entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, since the unorganized retail sector employs an enormous percentage of Indian population after the agriculture sector; secondly that the global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers; thirdly, it would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.

Many trading associations, political parties and industrial associations have argued against FDI in retailing due to various reasons. It is generally argued that the Indian retailers have yet to consolidate their position. The existing retailing scenario is characterized by the presence of a large number of fragmented family owned businesses, who would not be able to survive the competition from global players. The examples of south-east Asian countries show that after allowing FDI, the domestic retailers were marginalized and this led to unemployment. Another apprehension is that FDI in retailing can upset the import balance, as large international retailers may prefer to source majority of their products globally rather than investing in local products. The global retailers might resort to predatory pricing. Due to their financial clout, they often sell below cost in the new markets. Once the domestic players are wiped out of the market foreign players enjoy a monopoly position which allows them to increase prices and earn profits.

Indian retailers have argued that since lending rates are much higher in India, Indian retailers, especially small retailers, are at a disadvantageous position compared to foreign retailers who have access to International funds at lower interest rates. High cost of borrowing forces the domestic players to charge higher prices for the products. Another argument against FDI is that FDI in retail trade would not attract large inflows of foreign investment since very little investment is required to conduct retail business. Goods are bought on credit and sales are made on cash basis. Hence, the working capital requirement is negligible. On the contrary; after making initial investment on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.

The hope for the liberalization of the retail sector and an unrestrained reception to FDI in retail trading without any restrictions on the number of brands, outlets or location of stores got the biggest blow when the parliamentary standing committee on commerce on 8th June, 2009, while presenting a picture of gloom, recommended a blanket ban on domestic corporate and foreign retailers from entering retail trade and also suggested restrictions to bar organized retail firms from setting up malls and
selling other consumer products\textsuperscript{289}. The report cautioned that allowing organized players, domestic and as well as foreign, to enter retail trade would result in the destruction of the economic foundation of the small retail supply chain. Moreover, the parliamentary committee has also suggested putting in place a regulation, a National Shopping Mall Regulation Act, to ensure that cartelization does not take place, and regulate the fiscal and social aspects of the retail sector.

The committee observed that Consumers’ welfare would be sidelined, as the big retail giants by adopting a predatory pricing policy would fix lower price initially, tempting the consumers. After wiping out competition from local retailers, the big retailers would be in a monopolistic position and would be able to dictate prices, the panel said. It also said that procurement centers constituted by big corporates for making direct bulk purchases would initially pay attractive prices to farmers and cause gradual extinction of ‘mandis’ and regulated market yards. It is to be noted that though the recommendation of the panel are not binding upon the Government; the same have outrageously done the intended harm. In other words, the direct result of the media hype of the recommendations of the Panel was the abrupt stoppage of all the progressive investment plans of various corporate giants all across the globe, who were desirous of investing an irresistible amount of capital in the Indian markets, in order to establish their brand name. The world leading retailer Wal-Mart was very eager to open a retail chain throughout India. The retail giant did everything possible so that the Government of India becomes inclined to liberalize FDI in retail sector. In February 2002, the world’s largest retailer, Wal-Mart, opened a global sourcing office in Bangalore. In November 2006, it announced its entry under a joint venture with the Indian corporation Bharti. However, all attempts proved to be futile and the giant retail MNC finally settled up with the establishment of a cash – carry outlet in Amritsar on June 6, 2009. Such stores don’t sell to end-users, but to retailers and middlemen. This is the only format under which foreign retail chains are allowed in

\textsuperscript{289}The Economic Times, article entitled “House panel for ‘no entry’ to corporate in retail”, June 6, 2009.
India. It is submitted that at present, 100 percent FDI is permitted under automatic route in the wholesale cash – and carry trading.\(^{290}\)

According to a report mentioned in “The Times of India 2009”\(^{291}\) Unfortunately, the iconic $31-billion Scandinavian home products giant, IKEA, has put on hold its plans to set up 25 showrooms across the country foreign investment of around $1 billion. In an internal communication, IKEA told its stakeholders that Indian investment rules do not encourage it to go ahead with its investment plans — at least not in the near future. Moreover, it has been seen that Carrefour, Cartier, Armani, Tesco and UK-based Curry’s and Sports Direct International could also be some of the foreign retail players to cut down their investment in India following the government’s FDI policy on retail. Thus, Indian retail may lose FDI of up to Rs 400 crore (Rs 4 billion) this fiscal because of recommendations by the Parliamentary Panel on Commerce, which has opposed further leeway to the entry of international retail brands in the country.\(^{292}\)

However, there was further mention in The Times of India 2009\(^{293}\) that unfortunately the issue still remains nebulous; with only evident positive thinking on part of the government and with no final affirmative or negative decision on the same whatsoever. Thus, it is to be noted that even though no decision has been taken by the government on the recommendations given by the panel; the direct ramifications of the recommendations have been evident considerable loss of FDI, managerial expertise, and jobs for the Indian retail industry along with sacrifice of the consumer’s interest and welfare.

### 4.6.6 Entry Options for Foreign Players Prior to FDI Policy

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:


\(^{291}\) The Times of India. article entitled “House panel applies brake on FDI in retail”, June 6, 2009.


\(^{293}\) The Times of India, article entitled “House panel applies brake on FDI in retail”, June 6, 2009.
1. **Franchise Agreements**

It is an easiest track to come in the Indian market. In franchising and commission agents’ services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

2. **Cash And Carry Wholesale Trading**

100 per cent FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

3. **Strategic Licensing Agreements**

Some foreign brands give exclusive licenses and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Pyramid, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodland’s Pvt. Ltd.

4. **Manufacturing and Wholly Owned Subsidiaries**

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorized to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.
4.6.7 Impact and Role of FDI in Indian Retail Sector

In the fierce battle between the advocators and antagonist of unrestrained FDI flows in the Indian retail sector, the interests of the consumers have been blatantly and utterly disregarded. Therefore, one of the arguments which inevitably need to be considered and addressed while deliberating upon the captioned issue is the interests of consumers at large in relation to the interests of retailers. Interestingly, in contradiction to the recommendations of the Parliamentary Committee’s report, the Economic Survey 2008-09 raised hopes of all those looking for a favorable response of the government on the subject. While, the Economic Survey has made a strong case for opening up the FDI for multi-brand retail, it has recommended a gradual opening of the sector. Improving the investment environment would require FDI in multi-format retail, starting with food retailing. Initially the FDI could be allowed subject to the setting up a modern logistics system, perhaps jointly with other organized retailers. A condition could also be put that it must have, for five years say, wholesale outlets where small, unorganized retailers can also purchase items to facilitate transition. Most modern organized retailers, who have been asking for removal of ban on FDI in retail, were excited with the recommendation made by the Survey in its report. In wake of relentless protests for the opening up of the Indian retail market for the reception of unrestrained FDI, the Investment Commission in July, 2006, suggested that 49 percent FDI be allowed in the Indian retail sector without any restrictions on the number of outlets or location of stores. The Commission opined that that foreign investment would help in improving the retail and supply chain infrastructure, and generate large-scale employment in the country. In addition, the Indian retailers could absorb some of the best operational practices of these international retailers and gain in experience. Ultimately, the consumers would benefit due to the availability of more product offerings, lower prices, and efficient service. The recommendations of the Investment Commission proved to be very promising.

and paved the way for a positive feedback to the global retailers towards the Indian retail sector.\textsuperscript{295}

Thus, FDI in retailing is favored on a number of grounds. The global retailers have advanced management know how in merchandising and inventory management and have adopted new technologies which can significantly improve productivity and efficiency in retailing. The entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices. Also FDI in retailing can easily assure the quality of product, better shopping experience and customer services. They promote the linkage of local suppliers, farmers and manufacturers, no doubt only those who can meet the quality and safety standards, to global market and this will ensure a reliable and profitable market to these local players. As multinational players are spreading their operation, regional players are also developing their supply chain differentiating their strategies and improving their operations to counter the size of international players. This all will encourage the investment and employment in supply chain management. Moreover, joint ventures would ease capital constraints of existing organised retailers and FDI would lead to development of different retail formats and modernization of the sector. Therefore, FDI in retail would undoubtedly enable India Inc to integrate its economy with that of the global economy.

According to Bhukta\textsuperscript{296} in his article clearly specified that FDI will help to overcome both – the lack of experience in organized retailing as well as lack of trained manpower. FDI in retail would reduce cost of intermediation and entail setting up of integrated supply chains that would minimize wastage, give producers a better price and benefit both producers and consumers. From the stand point of consumers, organized retailing would help reduce the problem of adulteration, short weighing and substandard goods.

\textsuperscript{295} Business Insights International, Foreign Direct Investment in the Indian Retail Sector 2009.

\textsuperscript{296} Bhukta Gan, “Optimizing Youth Employment Through FDI in Retail in India”, GITAM Institute of Foreign Trade, India, 2009.
FDI will not just provide access to larger financial resources for investment in the retail sector but simultaneously will rationally allow larger supermarkets, which tend to become regional and national chains to achieve the following objectives:

(i) To negotiate prices more aggressively with manufacturers of consumer goods and thus pass on the benefit to consumers.

(ii) To lay down better and tighter quality standards and ensure that manufacturers adhere to them.

Moreover, consumer goods manufacturers generally prefer supermarkets since they not just offer a wide range of their products and services, so the consumer can enjoy single-point shopping, but simultaneously they by their attractive presentation and tempting retailing strategies also account for an increasing share of consumer product sales. Also, the fact that a well-known chain of supermarkets procures its goods from a known manufacturer becomes a stamp of quality. Moreover, with the availability of free flow of finance in conjunction with advent of healthy inflow of FDI, the supermarkets will be in a better position than small retailers to make shopping a pleasant experience by making investments in much needed infrastructure facilities like parking lots, coffee shops, ATM machines, etc. It can thus be safely contended that with the possible advent of unrestrained FDI flows in retail market, the interests of the retailers constituting the unorganized retail sector will not be gravely undermined, since nobody can force a consumer to visit a mega shopping complex or a small retailer/ sabji mandi. Consumers will shop in accordance with their utmost convenience, where ever they get the lowest price, max variety, and a good consumer experience.

Moreover, it is to be noted that the small retailers will still remain in good business owing to the fact of their convenient location near the residential societies and to the fact of the distant location of the mega stores and malls. The benefits of larger FDI can thus be tangibly felt in the domains pertaining to technological advancements, generation of export, production improvements, and hastening of manufacturing employment. Capital inflow into India has increased and so have the exports from the country. Thanks to the economic boom India is experiencing, some Indian companies
are doing better than even the multinational corporations. Allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country’s GDP and overall economic development, but would inter alia also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment, which the unorganized sector (kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them. Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. The interest of the consumers should therefore take precedence over the interest of the retailer and consequently healthy flow of FDI in retail should be permitted.

4.6.8 Limitations Faced by FDI in Indian Retail Sector

I. Infrastructure

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT, 80 per cent of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold-chain to the extent of 100 per cent, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.
II. Intermediaries dominate the value chain

Intermediaries often flout mandi norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only $\frac{1}{3}$rd of the total price paid by the final consumer, as against $\frac{2}{3}$rd by farmers in nations with a higher share of organized retail.

III. Improper Public Distribution System (“PDS”)

There is a big question mark on the efficacy of the public procurement and PDS set-up and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a ‘farm-to-fork’ retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.

IV. No Global Reach

The Micro Small and Medium Enterprises (“MSME”) sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganized sector in overall manufacturing has declined from 34.5 per cent in 1999-2000 to 30.3 per cent in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

4.6.9 Conclusions

Amidst today’s time of fierce competition and a quest to achieve and enhance a substantial level of economic and social development; each and every nation is trying to liberalize its economic policies in order to attract investments from not only, domestic players, but also from magnates all across the globe. Consequently, people with generous reserves of funds, all around the globe, are expanding their wings and seeking opportunities of investing in different spheres of this lucrative market. India too is not oblivious to the rapid developments taking place in the global market and
has emerged as one of the prime destinations for the investment of funds from an impressive number of foreign investors.

In recent times the consumer are showing much greater confidence and in a due response the retail players in the market are veering towards aggressive expansion plan. These developments are clearly signaling an affluent time for retail sector. As the organized retail space in India continues to grow, it is likely to see a number of initiatives in the near future. Companies are likely to combine expansion with innovative measures as they look to ensure profitability in difficult times. Players need to increase their investments in retail ancillaries and retail logistics to ensure sustained benefits. As a survival strategy, moves are on to allow FDI in the multi-brand retailing sector and there is fresh flow of equity investment in this sector which will definitely give the Indian retail sector a much needed boost. The advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China; where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country’s GDP. Besides, it would also lead to inflow of latest technical knowhow, establishment of well integrated and sophisticated supply chains, availability of standard, latest and quality products help in up gradation of human skills and increased sourcing from India. As India capitalizes on the benefits of FDI, there will be more competition in the market at large and the rural sector of the country will be in the process of reformation, thus bringing about a socio-economic stability. According to industry experts, the next phase of growth is expected to come from rural markets. Organized retail market in India is expected to reach US$ 50 billion by 2011 while the rural market is projected to dominate the retail industry landscape in India by 2012 with total market share of above 50 per cent.

---

Raghunandan\textsuperscript{298} in his article justified that however, the path of liberalizing the Indian retail sector should be treaded cautiously in the wake of the fact that international experience has shown that except for the huge profits raked in by the supermarket chains, organized retail has been a lose-lose scenario for farmers, small traders and wholesalers, consumers and the environment and therefore society as a whole 2010. Therefore, the strategy of opening up should be backed by appropriate reform measures. India can learn from the experiences of other developed and developing countries and develop its own strategies, laws and regulations that would be in the best interest of the country. Further he emphasized that, as of now, there is no proper definition of retailing or retail formats in India. International players are exploiting the situation and are often entering the market and expanding their businesses through multiple routes and are operating in the country with more than one format of retailing. The regulatory regime should address these issues. The entry norms should clearly state the approval requirements, conditions / restrictions if any imposed, etc. The government should also strictly enforce the quality standards for local production and imports.

Moreover, the Indian Council for Research on International Economic Relations (ICRIER) drafted a report which suggested that the opening up of the FDI regime should be gradual—over a 3 to 5 year timeframe— to give the domestic industry enough time to adjust to the changes. In the initial stage FDI up to 49 per cent should be allowed which can be raised to 100 per cent in 3 to 5 years depending on the growth of the sector.

Roye\textsuperscript{299} was of the view that FDI capital below 49 per cent would not bring in the desired foreign investment collaboration. Current FDI policy allows 100 percent FDI in Cash–and–carry wholesale formats and 51 percent FDI are allowed in single brand retailing. However, the regulations have been interpreted as guiding to a blanket ban on foreign investments in the sector. Thus, even investments by financial investors

\textsuperscript{298}Raghunandan D., ‘Fdi in Organised Retail: A Lose-Lose Game’ India Current Affairs, Economy, posted on 17-07-2010.

\textsuperscript{299} Roye S. D., ‘No to FDI in Retail’, No to Wal-Mart’, 14\textsuperscript{th} Oct 2010.
like FIIs and PE funds are prohibited, limiting the flow of capital required for the growth of the sector. A clarification of issues will enable investments by financial investors in the retail sector. This can be done by allowing investments by investors such as FIIs, Venture Capital Funds and other financial investors in the sector.

FDI in Retail trading should be opened up to substantially improve productivity and distribution system through modern format retailing. The government should come out with a policy statement laying down the roadmap for modern retail and allowing foreign investment in retail. If FDI in Retail industry is allowed, it will help domestic players to capitalize MNCs players supply chains and distribution network experiences. The grant of industry status will help companies borrow at lower costs, and will also bestow them fiscal incentives etc.

Furthermore, according to Mukerjee and Patel300 the country has benefited from large foreign investment flows in recent years. These flows, especially FDI, need to be encouraged through an appropriate policy regime. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but per contra should be significantly encouraged.

4.7 Global Retail Scenario

4.7.1 Introduction

Retail has played a major role world over in increasing productivity across a wide range of consumer goods and services. The impact can be best seen in countries like 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. It is also one of the largest world-wide. 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. Wal-Mart is the world’s largest retailer. Already the world’s largest employer with over 1 million associates, Wal-Mart displaced oil giant Exxon Mobil as the world’s largest Company when it posted $219 billion in sales for fiscal 2001. Wal-Mart has become the most successful retail brand in the world due its ability to leverage size, market clout, and efficiency to create market dominance. Wal-Mart heads Fortune magazine list of top 500 companies in the world. Forbes Annual List of Billionaires has the largest number (45/497) from the retail business.

Table 4.4

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>World's GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Other sectors</td>
</tr>
<tr>
<td>2</td>
<td>retail</td>
</tr>
</tbody>
</table>

Source: CSO MGI Study.

Graph 4.1

Contributions to Worlds GDP

![Graph showing contribution to world's GDP with 73% Other sectors and 27% Retail](www.fibre2fashion.com)
Table 4.3 and Graph 4.1 Retailing sector contributes to about 27 percent of the world’s GDP and have the largest number of establishments in the world. It also generates a huge amount of employment as compared to any other sector who collectively contributes 73 percent. The U.S retail industry is one of the largest industries in the world. It is the second largest among other industries in the US. It generates about 22 million jobs. It is worth US$ 9 trillion (figures as of 2007) and is still growing. The fact that 47 of the Global Fortune 500 companies and 25 of Asia’s Top 200 Companies are retailers is a matter of pride to the Retail sector.

The growth in retail sector is not only evident in the U.S, but also in other developed countries like U.K, European Union and Japan. Economies of countries like Singapore, Mexico, Thailand, Malaysia, Sri Lanka, etc. are also greatly dependent on the retail sector. Retailing all over the world can be divided into two basic categories:

- Organized retail
- Unorganized retail

Unorganized retail refers to the Local Mom and Pop stores. Hypermarkets, Supermarkets, Malls, etc. constitute the organized retail segment. The percentage breakup of organized and unorganized retail varies from country to country all over the world. Actually this percentage breakup can even be an indicator of the level of economic development of a country. Developed countries have more organized retail than unorganized retail. In the developing countries, the trend is vice-versa. Unorganized retail dominates developing countries. Nevertheless, organized retail is steadily growing:

### Table 4.5

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Organized Retail</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rest of the world</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>US.EU &amp; Japan</td>
<td>80%</td>
</tr>
</tbody>
</table>

Source: CSO MGI Study.
The breakup of organized retail among the developed and developing countries is as shown in Table 4.4 and Graph 4.2. Developed countries like the US, European Union and Japan together constitute 80 percent of the total organized retail in the world. But, the developing countries are not to be neglected. Growth of organized retail in these countries is at a much faster pace than that in developed countries. This is because in developing countries, there is more scope for future expansion as against the developed countries which may suffer from saturation.
### Table 4.6

World Total Retail sector and Percentage in organized sector

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Country</th>
<th>Total Retail</th>
<th>Organized Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>U.S.A</td>
<td>2983</td>
<td>85%</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>1182</td>
<td>66%</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>785</td>
<td>20%</td>
</tr>
<tr>
<td>4</td>
<td>U.K</td>
<td>475</td>
<td>80%</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>436</td>
<td>80%</td>
</tr>
<tr>
<td>6</td>
<td>Germany</td>
<td>421</td>
<td>80%</td>
</tr>
<tr>
<td>7</td>
<td>India</td>
<td>322</td>
<td>5%</td>
</tr>
<tr>
<td>8</td>
<td>Brazil</td>
<td>284</td>
<td>36%</td>
</tr>
<tr>
<td>9</td>
<td>Russia</td>
<td>276</td>
<td>33%</td>
</tr>
<tr>
<td>10</td>
<td>Pakistan</td>
<td>67</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: CSO MGI Study.

The above table 4.5 shows organized retail as a percentage of total retail in different countries. It is evident that developed countries like USA and UK have a higher percentage of organized retail than the developing countries like Brazil, China and Russia. India and Pakistan have to go a long way to match the other countries. Pakistan has the least percentage of organized retail as compared to the other countries mentioned above (1 percent) while India is no better off at 4 percent. The graphical depiction of the above table is as shown below. Here, the organized retail is given in terms of US$ rather than as just a percentage of total sales.
Table 4.7
Organized Retail with respect to Total Retail

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Name of the countries</th>
<th>Total Retail</th>
<th>Organized Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>2900</td>
<td>2500</td>
</tr>
<tr>
<td>2</td>
<td>JAPAN</td>
<td>1500</td>
<td>1200</td>
</tr>
<tr>
<td>3</td>
<td>CHINA</td>
<td>1200</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>UNITED KINGDOM</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td>5</td>
<td>FRANCE</td>
<td>400</td>
<td>300</td>
</tr>
<tr>
<td>6</td>
<td>GERMANY</td>
<td>400</td>
<td>300</td>
</tr>
<tr>
<td>7</td>
<td>INDIA</td>
<td>300</td>
<td>200</td>
</tr>
<tr>
<td>8</td>
<td>BRAZIL</td>
<td>300</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>RUSSIA</td>
<td>300</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>PAKISTAN</td>
<td>50</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Planet Retail and Technopark Advisers Pvt. Ltd.

Graph 4.3
Organized Retail with respect to Total Retail
Table 4.6 and Graph 4.3 show a clear description of the contribution of organized retail with respect to total retail. It shows that developing country USA out of total retail (2900) has organized retail (2500) Japan with 1500 to 1200 further more developing country India China are slowly and steadily moving towards having organized retail outlets. In short, there is a lot of scope for growth of organized retail in developing countries. India and China are the targets. Growing population, increasing incomes and higher purchasing power in these countries will drive the growth of this sector.

Some top retailers in the world are:

### Table 4.8

**List of Top Retailers in the World**

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Retailer</th>
<th>Home Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Wal Mart group, Inc</td>
<td>U.S</td>
</tr>
<tr>
<td>2</td>
<td>Carrefour group</td>
<td>France</td>
</tr>
<tr>
<td>3</td>
<td>The Kroger Co</td>
<td>U.S</td>
</tr>
<tr>
<td>4</td>
<td>The Home Depot, Inc</td>
<td>U.S</td>
</tr>
<tr>
<td>5</td>
<td>Metro</td>
<td>Germany</td>
</tr>
</tbody>
</table>

Source: STORES/Deloitte, Touche Tomahatsu.

### 4.7.2 Global Retail Index

Global Retail Development Index is an annual study that ranks the top 30 developing countries for retail expansion worldwide. The Index analyzes 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. Global retail expansion today has a
different profile than it had a decade ago when we published findings from the first Index. While the world's largest developing markets—particularly the BRIC nations of Brazil, Russia, India, and China—still tempt the largest global retailers and show no signs of slowing down, many smaller, untapped markets are providing new profit frontiers, particularly for regional and specialty players.

- **Highlights of the 2012 GRDI as per the Table : 4.9**

- 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 labor 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.

- An economic slowdown has forced Brazil's government to introduce stimulus measures, but the country still tops the annual Global Retail Development Index, from consultants at AT Kearney. It is Brazil's second year at the top of the ranking, again narrowly beating second-ranked Chile. But third place is taken by China, which has shot up from sixth place on the back of 2010's boom, overtaking Uruguay and India.

- Other strong performers include Malaysia and Sri Lanka. Indeed, the 30-country ranking, which was released on Monday, is dominated by Latin America and Asia, with emerging Europe hardly featuring at all. Even Russia ranks at a lowly 26, down from 11th place last year, as the effects of Western Europe's credit
crunch take their toll. The Middle East bar the UAE – has also lost ground, thanks to the political upheaval.

- Worryingly, AT Kearney's findings were issued on the same day that a major US retailer announced that it intends to bypass Europe for international expansion in Asia. After years of speculation that it was poised to use the UK as a springboard to penetrate Europe, US fashion chain J Crew instead said this week that it will make its first international moves in Hong Kong and Beijing, with stores planned to open in the autumn.

- The retailer’s decision to head to Asia before Europe reflects a new reality in the fashion market according to J Crew chief executive Millard Drexler, an iconic and influential leader in American retail. His company has partnered with Asian department store Lane Crawford in both locations and will expand across four further stores this year before opening a Shanghai flagship in 2013. Similarly, many global luxury brands are focusing heavily on the Asian and American markets for growth, with Mulberry the latest to set out a store expansion strategy very much centred on opportunities in Asia.

- The Global Retail Development Index analyses 25 macro-economic and retail-specific variables to identify emerging market investment opportunities. Until a few years ago, the list was dominated by Central European and Balkan countries. But Brazil is now in favourite, driven by a growing middle class economy, high consumption rates, a large, urban population, and reduced political and financial risk. In addition, Brazil’s relatively young population and high per capita spending in the fashion and luxury sectors have identified the country as a top potential destination for speciality retailers.

- Retail sales per capita in Brazil have grown 12 percent per year for the past four years to reach US$5,514, according to the ranking. Chile ranked second on the back of its fast-growing economies, with expected GDP growth of 6.2 percent in 2012. Inflation is low and the country risk is also deemed low. Uruguay ranked fourth despite its relatively small local population, because of high urbanisation rates and strong consumption levels.
As for China, the government's decision to redirect the economy away from exports and towards domestic consumption has benefited retailers. But there has been a price: inflationary pressures are now driving up rents by 30 percent a year, and labour costs are growing by 15 percent. India's ranking is supported by rising disposable income and rapid urbanisation, but the slow pace of retail liberalisation has deterred some investors.

Unfamiliar names in the ranking include Botswana, signalling the steady development of Sub-Saharan Africa, while Georgia, Mongolia and Azerbaijan also scored highly. Their presence points to the wide reach of emerging markets potential, with local market factors such as lower corruption and the emergence of a middle class no longer limited by region.

Today A.T. Kearney’s Global Consumer Institute released the 2012 Global Retail Development Index (GRDI), a ranking of the top 30 developing countries for global retail expansion. Brazil, is #1 for the second year in a row driven by a growing middle class economy, high consumption rates, a large, urban population, and reduced political and financial risk. In addition, Brazil’s relatively young population and high per capita spending in the apparel and luxury sectors make this country a top destination for specialty retailer.
### Table 4.9
Global Retail Development Index

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Country</th>
<th>2012 Rank</th>
<th>2011 Rank</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Brazil</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Chile</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>3</td>
<td>6</td>
<td>+3</td>
</tr>
<tr>
<td>4</td>
<td>Uruguay</td>
<td>4</td>
<td>3</td>
<td>-1</td>
</tr>
<tr>
<td>5</td>
<td>India</td>
<td>5</td>
<td>4</td>
<td>-1</td>
</tr>
<tr>
<td>6</td>
<td>Georgia</td>
<td>6</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>7</td>
<td>United Arab Emirates</td>
<td>7</td>
<td>8</td>
<td>+1</td>
</tr>
<tr>
<td>8</td>
<td>Oman</td>
<td>8</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>9</td>
<td>Mongolia</td>
<td>9</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>10</td>
<td>Peru</td>
<td>10</td>
<td>7</td>
<td>-3</td>
</tr>
<tr>
<td>11</td>
<td>Malaysia</td>
<td>11</td>
<td>19</td>
<td>+8</td>
</tr>
<tr>
<td>12</td>
<td>Kuwait</td>
<td>12</td>
<td>5</td>
<td>-7</td>
</tr>
<tr>
<td>13</td>
<td>Turkey</td>
<td>13</td>
<td>9</td>
<td>-4</td>
</tr>
<tr>
<td>14</td>
<td>Saudi Arabia</td>
<td>14</td>
<td>10</td>
<td>-4</td>
</tr>
<tr>
<td>15</td>
<td>Sri Lanka</td>
<td>15</td>
<td>21</td>
<td>+6</td>
</tr>
<tr>
<td>16</td>
<td>Indonesia</td>
<td>16</td>
<td>15</td>
<td>-1</td>
</tr>
<tr>
<td>17</td>
<td>Azerbaijan</td>
<td>17</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>18</td>
<td>Jordan</td>
<td>18</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>19</td>
<td>Kazakhstan</td>
<td>19</td>
<td>14</td>
<td>-5</td>
</tr>
<tr>
<td>20</td>
<td>Botswana</td>
<td>20</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>21</td>
<td>Macedonia</td>
<td>21</td>
<td>29</td>
<td>+8</td>
</tr>
<tr>
<td>22</td>
<td>Lebanon</td>
<td>22</td>
<td>12</td>
<td>-10</td>
</tr>
<tr>
<td>23</td>
<td>Colombia</td>
<td>23</td>
<td>24</td>
<td>+1</td>
</tr>
<tr>
<td>24</td>
<td>Panama</td>
<td>24</td>
<td>26</td>
<td>+2</td>
</tr>
<tr>
<td>25</td>
<td>Albania</td>
<td>25</td>
<td>13</td>
<td>-12</td>
</tr>
<tr>
<td>26</td>
<td>Russia</td>
<td>26</td>
<td>11</td>
<td>-15</td>
</tr>
<tr>
<td>27</td>
<td>Morocco</td>
<td>27</td>
<td>20</td>
<td>-7</td>
</tr>
<tr>
<td>28</td>
<td>Philippines</td>
<td>29</td>
<td>16</td>
<td>-13</td>
</tr>
<tr>
<td>29</td>
<td>Tunisia</td>
<td>30</td>
<td>18</td>
<td>-12</td>
</tr>
</tbody>
</table>

Source: Euromoney, population Data Bureau, International Monetary Fund, World Bank, World Economic Forum, Economic Intelligence Unit, Planet Retail, A.T.Kearney analysis.
4.7.3 Global Retail V/s Indian Retail

Large format retail businesses dominate the retail landscape in the United States and across Europe, in terms of retail space, categories, range, brands, and volumes. Indian retail industry cannot hope to learn much by merely looking at the Western success stories in retail. Their scales of operations are very huge, the profit margins that they earn are also much higher and they operate in multiple formats like discount stores, warehouses, supermarkets, departmental stores, hyper-markets, convenience stores and specialty stores. The economy and lifestyle of the West is not in line with that of India and hence the retailing scene in India has not evolved in the same format as the West nor can we learn valuable lessons from their style of operations. In retailing, the conventional wisdom used to be, that, the critical success factor was location. But precise location no longer matters and geo-demographics are increasingly becoming irrelevant. The leading multiple chain retailers, superstores and malls create their own centers of gravity, attracting customers by car, bus, train or even by plane to wherever they are located. The following factors still pose a challenge for the Indian retailers:

4.8 The Road Ahead

According to a study the size of the Indian Retail market is currently estimated at Rs.704 crores, which accounts for a meager 3 per cent of the total retail market. As the market becomes more and more organized the Indian retail industry will gain greater worth. The Retail sector in the small towns and cities will increase by 50 per cent to 60 per cent pertaining to easy and inexpensive availability of land and demand among consumers.

Growth in India Real estate sector is also complementing the Retail sector and thus it becomes a strong feature for the future trend. Over a period of next 4 years there will be a retail space demand of 40 million sq. ft. However with growing real estate sector space constraint will not be there to meet this demand. The growth in the retail sector is also caused by the development of retail specific properties like malls and multiplexes.
According to a report, from the year 2003 to 2008 the retail sales are growing at a rate of 8.3 percent per cent per annum. With this the organized retail which currently has only 3 per cent of the total market share will acquire 15 per cent-20 per cent of the market share by the year 2010.

**Factors that are playing a role in fuelling the bright future of the Indian Retail are as follows:**

1. The income of an average Indian is increasing and thus there is a proportional increase in the purchasing power.
2. The infrastructure is improving greatly in all regions is benefitting the market.
3. Indian economy and its policies are also becoming more and more liberal making way for a wide range of companies to enter Indian market.
4. Indian population has learnt to become a good consumer and all national and international brands are benefiting with this new awareness.
5. Another great factor is the internet revolution, which is allowing foreign brands to understand Indian consumers and influence them before entering the market. Due to the reach of media in the remotest of the markets, consumers are now aware of the global products and it helps brands to build themselves faster in a new region.

However despite these factors contributing to the growth of Indian retail Industry, there are a few challenges that the industry faces which need to be dealt with in order to realize the complete scope of growth in Indian market.

Foreign direct investment is not allowed in retail sector, which can be a concern for many brands. But Franchise agreements circumvent this problem. Along with this regulation, local laws, and real estate purchase restrictions bring up challenges. Other than this lack of integrated supply chain, management, and lack of trained workforce and flux of the market in terms of price and product choice also need to be eliminated.
The Indian Retail Street is set to glow brighter with India recapturing its position as the most attractive destination for global retailers, despite the global slump. According to the Global Retail Development Index (GRDI) released by US-based global management consulting firm, A T Kearney, India has emerged as best country amongst 30 emerging markets. This reinforces the fact that trade with India is a golden opportunity to be capitalized upon. Interestingly, Russia clinched the second position, while China settled for the third spot. The report also stated that India has become the most attractive destination for retail investment for the fourth time in five years.

Currently India has one of the largest numbers of retail outlets in the world. According to a report by images Retail estimates the number of operational malls will grow more than two-fold, i.e., it will cross 412, with 205 million square feet getting covered by 2013. Nearly 715 malls will be added by 2015, with major retail developments in tier-II and tier-III cities fuelling further growth. Many global retailers have given thumps up to trade with India.

The future ahead Industry experts see the rise of the rural sector in the coming years. Currently, rural market comprises nearly half of the domestic retail market of India, i.e., US$ 300 billion. The per capital income of the rural India has reportedly grown by 50 percent over the last 10 years, mainly because of the rising commodity prices and better productivity. According to E and Y India, basic infrastructure, generation of employment guarantee schemes, better information services and access to funding are ushering in good times for the rural households.

**As per the new market research report by RNCOS, organized retail market is expected to reach US$ 50 billion by 2011**

The boom in the retail market will fuel the growth of the logistic market. It is estimated the market will reach around US$20 billion by 2011.

---

Retailing of mobile handset and accessories is estimated to reach close to US$990 million by 2010 and the prediction was proved correct.

Rural market is estimated to lead the Indian retail industry landscape in the future.

Shopping malls are expected to increase at a CAGR of more than 18.9 per cent from 2007 to 2015.

4.9 Conclusion

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India 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 fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry. India’s organized retail, although less than Rs 45,000 crore in size, already boasts of several players different formats and categories. The big players are Future Group (Big Bazzar and Pantaloone) of Kishore Biyani, Tata Group (it runs departmental stores under Westsite, a books and music chain called Landmark, hypermarket star India bazaar, and a customer durables Chain christened Crima, in a tie up with UK’s Woolworths),Sanjiv Goneka,s RPG Group (Food World and Spencer’s), and Dubai-based Micky Jagtiani’s Land mark group (life style). That apart, there are several smaller players, including Subhiksha, Trinetra, and Nilgiri’s. Most recently, the Kumar Mangalam Birla-led AV Birla Group has announced plans of entering retail.
The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry. Favorable government policies and continued growth will mean that the future belongs to the most aggressive players.