Chapter 8

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Chapter 8

Future of Indian Retail Industry

8.1 Introduction

8.1.1 Landscape of Retail in India

The Indian government does not recognize retail as an industry. In India 98 percent of the retail sector consists of counter-stores and street-vendors\textsuperscript{323}, with no large players, inadequate infrastructure and a small affording population that believed in saving rather than spending. Indian retail never attracted the interest of large corporations. That was till they realized that retail in India is a USD 320 billion dollar industry, growing at CAGR 5 per cent and contributing to 39 per cent of the GDP\textsuperscript{324}.

It might seem almost nonsensical that this important sector of the country’s economy has been overlooked by corporate giants. One cannot blame them though. Indian retail has been a traditionally unorganized sector, dominated by counter-stores and street vendors. While retail employs a large sector of the population, most of these people are uneducated, unskilled individuals that regard retail as the preferred career alternative to agriculture. They never had the means nor will to develop the sector or expand their business. Retail never enjoyed the support of the Indian consumer. A miserly population that barely had the means to make end meet never treated

\textsuperscript{323} “Engaging India. Nuclear power and ‘organized’ retail.” Financial Times. 23rd Nov., 2006.

\textsuperscript{324} “Retail in India. Getting Organized to drive growth.” CII- Kearney A.T., Nov. 2006.
shopping as a form of leisure. While individual retailers saw small gains, lack of infrastructure, an unattractive Indian consumer and absence of regulation never provided the scale that retail giants could capitalize on. Meanwhile, the government preferred to look the other way while this unorganized retail sector provided a meager standard of living to millions in a country where poverty plagued the majority of the population. The unorganized retailers survived on thin margins and low volumes, while the corporate giants preferred to spend their resources in areas like power, industrials and telecom where the large-scale opportunities were abundant. Today the retail industry has witnessed a remarkable transformation. The country’s staggering economic growth of around 8 per cent over the last 2 years has resulted in major shifts in the Indian class structure with higher incomes leading to the growth of the Indian middle-class. This is a middle-class that is aware of the standards of living in other countries thanks to exposure through the media and internet. Unlike their forefathers they have decided to adopt a “Spending” approach to improve their standard of living rather than a “Saving” approach. With an estimated 400 million shoppers and growing, organized Indian retail’s target population is larger than that of the entire United States. Voted the most attractive retail destination in the world for two years in a row, India is expected to witness 7-8 per cent growth in its retail sector over the next few years.

Recognizing the short-term and long-term growth of retail in India, a number of domestic business giants have entered the retail industry or are planning to do so in the near future. Some like Pantaloon Retail, Shopper’s Stop and Pyramid Retail have been in the industry for a decade. Others like Reliance Retail Ltd. (RRL) have just entered and opened up a number of stores across the country. Still other domestic

327 Ibid
328 RRL is part of the Mukesh Ambani run Reliance Industries Ltd., one of India’s largest industrial houses.
players like Birla and Bharti are planning their foray into this sector. In fact retail in India has also attracted global giants like Wal-Mart who have also indicated their interest in the sector by forming a Joint Venture with Bharti. Each of these domestic and international retail giants have or will introduce a number of modern retail formats like malls, hypermarkets and supermarkets. Initial consumer response to these novelties in the retail sector has been very promising and as the middle-class continues to grow, organized retail in India is sure to see large returns. In fact, organized retail is growing at a staggering 35 per cent per year.

As organized retailers enter the Indian market, however, they must be mindful of the unique status of retail in the country. Retail in the country has been dominated by millions of unorganized retailers who have used consumer proximity and home-delivery as their operating ideals to cater to the Indian consumer that has become accustomed to this convenience. Unorganized retail has both shaped the mentality of the Indian consumer and been shaped by it. As of 2005 retail contributed 39 per cent of India’s GDP, but even with this, the percentage of retail in the organized sector is only a measly 6 per cent. These counter-stores and street vendors might seem small fish in a retail industry that is soon to be dominated by giants like Pantaloon and Reliance. Yet, they cater to a different set of preferences of the Indian consumer and have traditionally survived on low turnover and thin margins. Individually they are a minor factor in the retail plans of any giant organized retailer but collectively they represent the historic state of retail in India that is so deeply intertwined in the economy of the country and the psyche of the Indian consumer that co-existence with them is a better policy rather than competition.

Another factor that major retailers must be wary of is the lack of infrastructure to support supply chains and efficient retail operations in India. Companies like Wal-

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329 Also known as the Aditya Birla Group, another large industrial house with various business interests.

330 India’s largest cellular service provider.


Mart that grew from the ground-up leveraged the infrastructure of U.S.A to build a large supply-chain which has been the backbone of its success. The story in India is very different. Inadequate highways, the absence of cold storage facilities, an underdeveloped supply chain, limitless bureaucracy and the lack of regulations created a situation where the local corner-stores and hawkers thrived. What was the street-vendors gain will be a major hurdle for large-scale organized retailers. They will have to demonstrate unprecedented innovation, adaptation and experimentation to succeed in the Indian retail industry.

Table 8.1

Journey of Organized Retail in India

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Year</th>
<th>Growth</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000</td>
<td>First Phase</td>
<td>Entry, Growth, Expansion, Top line focus</td>
</tr>
<tr>
<td>2</td>
<td>2005</td>
<td>Second Phase</td>
<td>Range, Portfolio, Former options</td>
</tr>
<tr>
<td>3</td>
<td>2008</td>
<td>Third Phase</td>
<td>End to end supply chain management, Backend operation, Technology, Process</td>
</tr>
<tr>
<td>4</td>
<td>2011</td>
<td>Fourth Phase</td>
<td>M&amp;A, Shakeout, Consolidation, High investment</td>
</tr>
</tbody>
</table>

Source: A Report by Ernst and Young for IBEF, www.ibef.org

As mentioned in table 8.1, India has started emerging as a new market for all the global players because of changing demand and growing economy. The economy is one of the biggest magnetic factors which is pilling every major retail player outside this economy to enter and get the biggest possible bite of the cake as the cake called Indian market is the most tempting one today. The booming economy itself is not just an invitation but also is creating a necessity for the country to get some major players in the country to serve the demand. The economy of India is a growing economy in every aspect so even the demands are growing.
8.2 Retail in India - The Past, Present and Future

Before the decade of eighties, India with hundreds of towns and cities was a nation striving for development. The evolution was being witnessed at various levels and the people of India were learning to play different roles as businessmen and consumers.

Retail—which literally means to put on the market, is a very important aspect of every city. Without a well organized retail industry we would not have our necessities and luxuries fulfilled. Be it our daily groceries or fashion accessories and everything in between, retail industry brings us the blissful experience of shopping. Though organized retailing industry began much earlier in the developed nations, India had not actively participated. However with its vast expanse and young population, India in the 21st century emerges as a highly potential retail market. The journey of retailing in India has been riveting and the future promises further growth. Here is a complete picture deciphering the past, present and future trends of Indian Retail Market.

8.2.1 Retail in India Past Scenario

Before the decade of eighties, India with hundreds of towns and cities was a nation striving for development. The evolution was being witnessed at various levels and the people of the nation were learning to play different roles as businessmen and consumers. The foundation for a strong economy were being laid, youth were beckoning new awareness in all spheres. And this brought in an opportunity for retail industry to flourish. First in the metros and major cities later to impact sub urban and rural market as well.

Retailing in India at this stage was completely unorganized and it thrived as separate entities operated by small and medium entrepreneurs in their own territories. There was lack of international exposure and only a few Indian companies explored the retail platform on a larger scale. From overseas only companies like Levi's, Pepe, Marks and Spencer etc. had entered targeting upper middle and rich classes of Indians. However as more than 50 percent population was formed by lower and lower
middle class people, the market was not completely captured. This was later realized by brands like Big Bazaar and Pantaloons who made their products and services accessible to all classes of people and today the success of these brands proves the potential of Indian retail market.

A great shift that ushered in the Indian Retail Revolution was the eruption of Malls across all regional markets. Now at its peak, the mall culture actually brought in the organized format for Retailing in India which was absent earlier. Though malls were also initially planned for the higher strata, they successfully adapted to cater to the larger population of India. And it no wonder, today Malls are changing the way common Indians have their shopping experience. However there is still great scope for enhancing Indian mall culture as other than ambience and branding many other aspects of Retail Service remains to be developed on international standards.

To your surprise there was not a single mall in India a decade before and just a few years ago only a handful of them were striving, today there are more than 50 malls across different cities and 2 years from now around 500 malls are predicted to come up.

Indeed this shows a very promising trend ahead, however before taking a leap into the future of Retail in India, let's see what the Indian retail Industry is currently occupied with.

8.2.2 Retail in India Present Scenario

Organized Retail in India refers to the modern retail formats like supermarkets and hypermarkets prevalent in most developed countries. This form of retail accounts for a painfully low 2 per cent of the retail industry, but is growing at a healthy 35 per cent and is expected to cross the INR 1000 billion mark by 2020\textsuperscript{333}. Organized retail remained a dormant sector largely due to the lack of infrastructure for large-scale retail, absence of product variety and a conservative Indian consumer. Today the

\textsuperscript{333} “Retail in India – Getting Organized to drive growth.” CII- Kearney A.T., Nov. 2006.
flood of products in the market coupled with a wealthier, more informed Indian consumer have created the atmosphere for the entry of organized retail to tap into the $320 billion Indian retail industry.

At present the Retail industry in India is accelerating. Though India is still not at an equal pace with other Asian counterparts, Indian is geared to become a major player in the Retail Market. The fact that most of the developed nations are saturated and the developing ones still not prepared, India secures a great position in the international market. Also with a highly diverse demography, India provides immense scope for companies brining in different products targeting different consumers.

According to the Global Retail Development Index, India is positioned as the foremost destination for Retail investment and business development. The factor that is presently playing a significant role here is the fact that a large section of Indian population is in the age group of 20-34 with a considerably high purchasing power; this has caused the increase in the demand in the urban market resulting in consistent growth in the Retail business.

And though the metros and other tier 1 cities continue to sustain Retail growth, the buzz has now shifted from these great cities to lesser known ones. As the spending power is no longer limited to metros, every tier 2 city in the country has good market for almost every product or service. Due to this, tier 2 cities like Chandigarh, Coimbatore, Pune, Kolkatta, Ahmedabad, Baroda, Hyderabad, Cochin, Nagpur, Indore, Trivandum etc. provide a good platform for a brand to enter Indian market.

However there are a few precautions for every brand that explores Indian market. As Indian consumers are very curious and have a broad perspective, they respond well to a new product or concept and there are very fair chances of a brand surviving well, but every Indian consumer be it an urbanite or a small town dweller needs a feeling of value for money. Although labeled as tight fisted, Indian consumers are great spenders once they realize that they are getting value for their money. Also new product /service concepts from the western world are better adopted first by the urban
Indians, the smaller markets respond well to the need based retailing rather than luxury concepts.

As the Indian retailing is getting more and more organized various retail formats are emerging to capture the potential of the market.

- Mega Malls
- Multiplexes
- Large and small supermarkets
- Hypermarkets
- Departmental stores are a few formats which flourishing in the both big and small regional markets

As the major cities have made the present retail scenario pleasant, the future of the Indian Retailing industry lies in the rural regions. Catering to these consumers will bring tremendous business to brands from every sector. However as the market expands companies entering India will have to be more cautious with their strategic plans. To tap into the psyche of consumers with different likes and dislikes and differing budgets a company has to be well prepared and highly flexible with their product and services. In this regard focusing on developing each market separately can save a brand from many troubles.

1. **Current and Future Players**

Organized retail in India is currently dominated by players that have been in the market for at most two decades. Pantaloon Retail is the market leader with its Wal-Mart-esque multipurpose low cost stores as well as specialized clothing retail outlets. Shopper’s Stop operates multi-storey malls in the major metros and is the equivalent of a Macy’s in the U.S. A number of other individual brand retailers like Haldiram, Raymonds and Titan also represent organized retail in India. Today, a number of major business houses in India are launching massive organized retail ventures like Reliance, Bharti (in a Joint-Venture with Wal-Mart) and the Aditya Birla Group. These companies that control many of the other industries in India have recognized
the potential of organized retail. They are leveraging their enormous cash reserves and decades of experience of doing business in the Indian economy and reaching out to the Indian consumer to launch a number of multi-store retail chains.

**The Organized retailing in India is also seeing the following changes in the future:**

1. **Indian Consumer**

   The Indian consumer has undergone a remarkable transformation. Just a decade or two ago, the Indian consumer saved most of his income, purchased the bare necessities and rarely indulged himself. Today, armed with a higher income, credit cards, exposure to the shopping culture of the west and a desire to improve his standard of living, the Indian consumer is spending like never before. Organized retail with its variety of products and multitude of malls and supermarkets is fueling his addiction. His new mentality, in turn, is fueling the growth of organized retail in India.

2. **Young Shoppers**

   India’s population is young, very young. Most consumers have grown up with television, the internet, and have been exposed to the standards of living and consumer culture abroad. This generation is also making money at a younger age and lots of it, thanks to call centers and other avenues of employment opening up that cater to students in college and schools. As a result they are ready to spend most, if not all of their income on apparel, accessories, and electronics.

3. **Higher Incomes**

   Liberalization of the country’s economy has brought a number of employment opportunities. With the entry of a number of multinationals and the expansion of domestic corporations, job prospects in the country are looking up. As a result, incomes and consumption are projected to increase
rapidly over the next couple of years. This sets the stage for a very exciting and promising retail market in the future.

4. **No Money, No Problem**

The finance sector has already seen a huge expansion. Unlike a decade ago, credit cards and short-term loans have become easily accessible and have contributed to the emergence of a consumer culture in India. Credit card rewards schemes, flexible financing options and all the other common lures are tempting the Indian consumer to shop. With loans for everything from a home to an automobile freely available, the Indian consumer can start spending on big-ticket items that were traditionally within his reach only after years of savings.

5. **Urbanization**

Growing urbanization is also responsible for the changing consumer psyche. As urbanization spreads beyond the major cities, it converts the local population from net savers to net spenders. This is consistent with what has been observed in developing countries like Thailand, Malaysia and developed countries like U.S.A and the U.K.

6. **The Lure of Organized Retail**

Another important factor to consider is the effect of existing organized retail in India in fueling consumerism. New malls and supermarkets with their modern decors and multiple products are enticing Indian consumers. This is one of the most direct factors responsible for the mentality change of the Indian consumer. As people see their relatives, friends, neighbors shopping at these new establishments, they are bound to jump on the bandwagon as well.

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2. Different Strata of Indian Consumers

The consumer of today, at least what the multinationals are targeting, is popularly known as the aspiring India – the middle income segment which is growing faster than ever. While 10-15 years ago, people in this segment would ask – “Mera number kab aayega” (When will I be able to afford the simple luxuries of life), today this same segment says – “Mera number ab aayega”, (I am now in a position to afford the simple luxuries of life).

The numbers on the Indian economy and retail sector in specific say a lot about the growth potential in India. However, the engine pulling this locomotive of the consumer goods market in India at breakneck speed is the 40 million Indian middle income households. Growing at around 10 percent a year, this section of the economy makes between $4000 to $10,000 per annum ($20,000 to $45,000, adjusted PPP), and its emergence and importance is signaled, for example, by the 100 per cent growth in passenger car sales ($5 billion in 2004) in the period between 2000-2005. More on the Indian Consumer Some of the features characteristic of these consumers is their tendency to borrow money in order to buy the upscale items – contrary to the traditional line of thought that Indian consumers are indisposed to credit. But these consumers not only have price and quality on their minds but also the fact that their brands effectively reflect their local environment and are consonant with their lifestyle. And this is where the foreign multinationals coming into the Indian consumer market has to pay attention. Selling global brands in India at global prices is a road to perdition. Companies who have tailored their products to the Indian environment and customer have reaped high rewards. For example, Nokia in India customized its 1100 model mobile phone by adding features such as a dust-resistant keypad, an anti-slip grip, and a built-in flashlight (useful during the frequent and unannounced power outages in the country). Samsung washing machines have been equipped with memory backup to compensate for India’s frequent power outages and a special rinse


cycle for saris\textsuperscript{337} to prevent them from becoming twisted and knotted\textsuperscript{338}. The Indian consumer’s change in attitude is going to manifest itself into rewards for the organized retail industry. At the same time, Indians will find it hard to give up their old habits of shopping at the local corner-store or buying goods from the street-vendor. The next section describes the unorganized and organized retail sectors in detail. It is critical to understand these sectors individually to speculate about possible the nature of interaction between them. While the traditional form of retail in India is sure to suffer a setback from the entry of large organized retailers, it is possible for both forms to co-exist serving the new personality and old-habits of the Indian consumer simultaneously.

3. Interest Shown by the Government

The government too has recognized the potential of the organized retail sector and is beginning to make changes the will remove the barriers to entry in this sector and open it up for expansion. Through the implementation of Value Added Tax (VAT), sanction of large plots of land for retail development, permission of Foreign Direct Investment (FDI) in real-estate and partial FDI in retail, the government has initiated the changes needed in the organized retail sector\textsuperscript{339}. Critical Policy Improvements Required Yet, despite all the optimistic projections of organized retail in India, a number of improvements in a number of areas will be required for organized retail in India to truly live up to its enormous potential. With the current status-quo, organized retail is a large market in India but with certain improvements, organized retail in India can be one of the biggest sectors in the world.

1. Currently, the government permits 51 per cent FDI by a single-brand retailer\textsuperscript{340}. The retail market needs to be opened up to 100 per cent FDI to invite significant foreign competition that will introduce best practices,

\textsuperscript{337} http://en.wikipedia.org/wiki/sari

\textsuperscript{338} Ibid

\textsuperscript{339} McKinsey Global Institute India Report-Retail Sector.

\textsuperscript{340} “51 Percent Foreign Equity Allowed in Retail Sector.” Yahoo News, Jan. 2006.
improve productivity in the industry and accelerate its development and penetration.

2. The government must also reduce the amount of bureaucracy that an organized retailer has to deal with. Currently, a large organized retailer needs to obtain a variety of permits from different departments to open each outlet. This creates significant barriers to entry and increases administrative costs. The government must set up a one-stop department that caters to the requirements of organized retail given the potential of this sector in bringing gains to the economy.

3. The government must give the retail sector industry status to allow it to enjoy the benefits that come with this status. The government needs to introduce a number of policies to accelerate the growth of the Indian retail industry. The dormancy of the government, challenges posed by inadequate infrastructure together with a lack of exposure to best-practices have been responsible for low productivities experienced by the few organized retailers that have been present in the sector. Organized retailers that entered the sector before the current boom were plagued with a number of problems that were responsible for their poor performance. It is critical for new entrants to learn from their mistakes in order to succeed in the industry.

8.2.3 Present Challenges in Retailing

1. The industry is facing a severe shortage of talented professionals, especially at the middle management level. Most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding. Long intermediation chains would increase the costs by 15 per cent.

2. Lack of adequate infrastructure with respect to roads, electricity, cold chains and ports has further led to the impediment of a pan-India network of suppliers. Due to
these constraints, retail chains have to resort to multiple vendors for their requirements, thereby, raising costs and prices.

3. The available talent pool does not back retail sector as the sector has only recently emerged from its nascent phase. Retailing is yet to become a preferred career option for most of India’s educated class that has chosen sectors like IT, BPO and financial services.

4. Even though the Government is attempting to implement a uniform value-added tax across states, the system is currently plagued with differential tax rates for various states leading to increased costs and complexities in establishing an effective distribution network. Stringent labor laws govern the number of hours worked and minimum wages to be paid leading to limited flexibility of operations and employment of part-time employees. Further, multiple clearances are required by the same company for opening new outlets adding to the costs incurred and time taken to expand presence in the country.

5. The retail sector does not have ‘industry’ status yet making it difficult for retailers to raise finance from banks to fund their expansion plans.

6. Productivity Performance of the Organized Retail Sector

The labor productivity of retail in India stands at a low 6 per cent of US levels, according to a Mckinsey Global Institute’s report on Indian Retail Sector. This 6 per cent per cent is distributed unevenly with 5 per cent for food retailing and 8 per cent for non-food retailing. In comparison, the food retailing productivity in Brazil is 14 per cent and non-food retailing in Poland is 25 per cent. The rural retail employment accounts for about 60 per cent\(^{341}\) of the total employment in the sector. Rural productivity in retail is about 60-65 per cent that of urban centers. There are certain clear cut reasons why this should be the case. The average sales, in terms of rupees per day, in a rural store are close to Rs. 1000 compared to

\(^{341}\) McKinsey Global Institute India Report, Retail Sector.
Rs. 7000\textsuperscript{342} per day for a store in an urban area. Some of the reasons for this can be attributed to lower purchasing power in the rural areas, self-consumption of agri-produce and a tendency of villagers to purchase from cities. Because of these reasons, people in the villages generally stock consumables such as tea, sugar, bulbs, wires, stationery, and a few items of clothing. Low opportunity cost of the labor entails longer work hours in this rural setting.

Reasons for Low Productivity

Some of the reasons that have been outlined for the poor productivity performance are – a format mix which skews towards transition formats, and poor operational efficiency of modern formats.

8. Poor Productivity in modern formats

Supermarkets in India have to operate in face of productivity hassles which can be attributed to some of the following operational aspects of this sector:

1. Scattered and inefficient supply chain which inflates procurement costs (lack of focus in having a few nationwide suppliers and instead having up to 400 per region\textsuperscript{30} needs a huge sourcing and quality control team raising costs of procurement).

2. The supply chain for food in India has two or three additional intermediaries on an average compared with supply chains in the US. This can, in part, be attributed to the market regulations such as constraints in food grain movement across states, inability to purchase directly from farmers, etc. This in turn slows down the growth of large processors.

Non-level playing field in the retail sector

Counter stores in India take advantage of some of the following benefits accorded to them by the government:

1. Tax Vacation: The government policy enforces higher tax rates for organized retailers, with making them pay at corporate rates, while counter stores still pay at individual income tax rates. Tax evasion is rampant among small

\textsuperscript{342} Ibid
counter stores owners, in fact so few of the small mom and pop store owners pay taxes, that most of them could be thought of being on a tax vacation with the government conveniently looking the other way.

2. Uneven tax rates across states: The present tax structure necessitates the imposition of tax on retail chains operating in a non-localized fashion. The sales tax structure has differences in rates across McKinsey states, in addition to the imposition of a central levy on inter-state sales. It doesn’t end there, another tax (octroi) is levied on the movement of goods from one district to another343.

3. Labor laws: Developing countries in general have generous labor laws344. The labor laws in India ask that work for a retail employer is limited to 8 hours, and also require that the shop be shut for one day in a week. Though organized retailers adhere to these laws, the counter stores remain open throughout the year, making labor work for over 12 hours a day.

4. Non-payment of market rates for inputs: Lower rent and nominal power cost (if any) characterizes the counter stores in India, as opposed to extremely high land and property rent paid by the organized sector.

**Vicious Circle**

At any place, big supermarkets and specialty stores leverage their volumes to drive costs down and possess superior skills (especially in managing inventory and marketing) to make themselves, more productive than counter stores. A key factor behind the miniscule growth share of supermarkets in India, especially in food retail is the under-developed nature of upstream industries. This results in a relatively higher pricing in the supermarkets when compared with counter stores, giving counter stores or the unorganized sector an edge

343 Liable to change with every union budget.


396
over the organized sector in retail. A fragmented supply chain, a sub-scale processing sector and lack of proper cold storage facilities are some of the problems which plague the organized retail sector, especially in food. The current government policies are also favorable to counter stores in the form of relaxed labor and tax regulations.

8.2.3 Retail in India the Future Scenario

According to a study the size of the Indian Retail market is currently estimated at Rs. 704 crores which accounts for a meager 3 percent 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 to 60 percent 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 annum. With this the organized retail which currently has only 3 percent of the total market share will acquire 15-20 percent of the market share by the year 2010\textsuperscript{345}.

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

- The income of an average Indian is increasing and thus there is a proportional increase in the purchasing power.

\textsuperscript{345} CRISIL Research-Retailing Annual Review. 2009.
• The infrastructure is improving greatly in all regions is benefiting the market.

• Indian economy and its policies are also becoming more and more liberal making way for a wide range of companies to enter Indian market.

• Indian population has learnt to become a good consumer and all national and international brands are benefiting with this new awareness.

• 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 regulations and local laws and real estate purchase restrictions bring up challenges. Other than this lack of integrated supply chain and management and lack of trained workforce and flux of the market in terms of price and product choice also need to be eliminated.

Despite these challenges many international brands are thriving in the Indian market by finding solutions around these challenges. A company that plans to enter Indian market at this time can definitely look forward to great business if it analyzes and puts efforts on all parameters.

And with Good Planning, Timely Implementation and a media campaign that touches Indian consumers any brand can go far ahead in the Indian Retail Revolution.

Organized retail represents a large untapped market in India that is likely to see tremendous growth in the coming years. New entrants are bound to see large returns. However, they must adapt themselves to the unique state of retail in India where
infrastructure and regulations provide little support. They must also understand the tastes of the Indian consumer who has only recently started treating retail as a form of leisure. Meanwhile organized retail will continue to displace many unorganized retailers who are no competition for the large-scale corporations. Those street-vendors of the bottom or unorganized retail will be forced to turn back to agriculture or some other form of livelihood. Yet, corner-stores and hawkers will continue to be a part of the Indian retail experience. These retailers have always survived on small, diverse sales with small margins. In that regard, they do not compete in the same market as organized retail. The Indian consumer may have undergone a transformation, but the transformation is only partial. His higher income, increased exposure and greater willingness to spend will spur the organized retail sector. Meanwhile the conveniences of home-delivery, purchases on credit and proximity offered by the unorganized sector will drive him to the nearest corner-store or street vendor for his small, just-in-time purchases. Organized retailers have not and are unlikely to worry about the threat of unorganized retail as both forms of the retail business cater to different preferences.

8.3 Retailing and Trends for 2015 — The Outlook

For long, the analysts have been betting on strong retail and financial services sector performances to help and power India – Asia’s third-largest economy. Such expectations further get a boost as more and more Indians move towards western-style consumer spending patterns. And, while Fitch, the global ratings agency, has recently opined that Indian consumer spending is at its weakest in seven years, and they further, believed that India’s retail sector will become a USD 1.3 trillion opportunity by 2020. By that time, there will be close to 200 cities with population of over 0.5 million that will fuel retail growth.

The estimated value of the Indian retail sector is about USD 500 billion presently. Further, modern retail, which currently stands at 5 percent, will grow about six times

from the current USD 27 billion to USD 220 Billion in the next 8 years. It is believed that integrated multi-channel retailing will drive consumption in India. Modern retailers have in the past tried to capitalize on this opportunity by increasing their store presence across major cities. Fast moving consumer goods (FMCG) majors, have on the other hand, have tried to enhance distribution reach.

However, achieving these robust growth projections requires the industry to look beyond the conventional brick-and-mortar stores, and consider other avenues like digital and mobile sales. This is because expensive real estate costs are already playing spoilsport for retailers. Real estate costs, especially, high rentals that are in range of 10 – 15 percent of revenue, render breaking even even a daunting task. Retailers need to rethink their business plans and shift a chunk of their sales from stores to alternate low-cost channels. Digital sales points are increasingly becoming a preferred option for retailers. Sales through digital channels, notably websites and mobile applications, which at present are miniscule, will increase to 6-8 percent of the total modern retail, by amounting to about USD 13.3-18.6 Billion by 2020347.

Time has also come for a more robust and symbiotic relationship between retailers and FMCG companies. FMCG firms have a lot to gain with the advent of multi-channel retailing. However, the depth of retail FMCG collaboration will be one of the key success factors for multi-channel retailing. It is imperative for retailers and FMCG majors to collaborate for assortment planning, replenishment, space planning and promotion as they have a lot to gain.

**There is a prediction that between now and 2015 will be a time of transition for retailing.**

Long-term cycles are coming to a close. New market forces are becoming more prevalent. As these trajectories converge between now and 2015, they will change the retail business environment—and the ways we do business—forever: This can be

• The Baby Boom—which has dominated retail thinking for decades—will stand on the precipice of age 70—and will start turning over the keys to younger generations.

• Interconnectivity will be a part of life—and also a way of life. It will impact the way people get and share information, communicate, transact business, even the way they socialize.

• Many existing retail concepts will reach the end of their expansion runway.

• Spending on services will grow at the expense of spending on goods.

• The prevailing belief that bigger is better will break down—aggregation of small will be the new big. Leading companies will combine global scale with excellence at local execution.

• Global scope has been an option. In 2015, it will be a requirement to support large-scale growth and sound business economics.

• Consolidation of retailing into a global oligopoly will continue, as major players seek expansion in emerging markets experiencing rapid growth of the middle class and rapid modernization of retailing.

• “Point of purchase” will be the battlefield for consumer dollars—replacing the confines of “shelf space” and “selling floor”.

• Technology will be pervasive—driven by falling costs, widespread access and adoption, a working infrastructure and increased standardization.

• Retailing will evolve toward true demand—replacing the artificial demand dictated by the limitations of shelf space—in an increasingly digital retail environment where shoppers will have almost infinite visibility into product choice and increasing input into product creation.

• Digital and personal media will continue to grow exponentially and create new channels for customer insight, interaction and engagement.

• The value chain will become more intimate: Consumers will share more information with retailers and suppliers but expect to get more value in return.
- Just-in-time supply chain and the technology to support it will no longer be the gold standard; extremely reduced cycle times will require accelerated trend identification, entry and exit.

- Consumers won’t be able to take resources for granted any more. Resources will be scarcer, in greater demand and hence more expensive—raising the bar on expectations for corporate responsibility and product sustainability.

To succeed in 2015, retailers and suppliers must remember what got them there—and also embrace new assumptions that drive the new outlook. Past business drivers will wane but won’t entirely disappear.

The above mentioned facts can be understood in a better way with help of the following table which shows the transitional growth of organized retail industry from year 2004 to year 2015.

### Table 8.2

**Organized Retail Outlets in India from 2004 to 2015 (Rs Cr)**

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Areas</th>
<th>2004</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Food and Grocery and General Merchandise</td>
<td>2950</td>
<td>102546</td>
</tr>
<tr>
<td>2</td>
<td>Cloth Textile and Fashion</td>
<td>10900</td>
<td>40605</td>
</tr>
<tr>
<td>3</td>
<td>Durables and Mobiles</td>
<td>3340</td>
<td>28891</td>
</tr>
<tr>
<td>4</td>
<td>Food Service</td>
<td>2000</td>
<td>24351</td>
</tr>
<tr>
<td>5</td>
<td>Home Appliances</td>
<td>2500</td>
<td>16346</td>
</tr>
<tr>
<td>6</td>
<td>Jewellery and Watches</td>
<td>1960</td>
<td>8770</td>
</tr>
<tr>
<td>7</td>
<td>Footwear</td>
<td>2500</td>
<td>6508</td>
</tr>
<tr>
<td>8</td>
<td>Books Music Toys and Gifts</td>
<td>800</td>
<td>3722</td>
</tr>
<tr>
<td>9</td>
<td>Others</td>
<td>1350</td>
<td>14692</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>28000</strong></td>
<td><strong>246431</strong></td>
</tr>
</tbody>
</table>

Source: A Report by Ernst and Young for IBEF, www.ibef.org
Table 8.2 shows the contribution of organized retail outlets to Indian economy from 2004. It also gives an idea about the future position of various formats in the economy and their contribution to the Indian economy. As per the table it is clear the food grocery and general merchandise contributed Rs 2950 (Cr) and occupied about 10% of the total space in the economy, Cloth Textile and Fashion contributed Rs 10900 (Cr) and occupied about 39% of the total space in the economy, Durables and Mobiles Rs 3340 (Cr) and occupied about 12% of the total space in the economy, Food Service Rs 2000(Cr) and occupied about 7% of the total space in the economy, Home Appliances Rs 2500 (Cr), Jewellery and Watches Rs 1960 (Cr) and occupied about 7% of the total space in the economy, Footwear Rs 2500 (Cr) and occupied about 9% of the total space in the economy, Books Music Toys and Gifts Rs 800 (Cr) and occupied about 3% of the total space in the economy, and others also contributed Rs 1350 (Cr) and occupied about 5% of the total space in the economy in 2004, but it is predicted that by year 2015 Food Grocery and General Merchandise is going to contribute Rs 102546 (Cr) and occupy about 42% of the total space in the economy, Cloth Textile and Fashion is going to contribute Rs 40605 (Cr) and occupy about 16% of the total space in the economy, Durables and Mobiles is going to contribute Rs 28891 (Cr) and occupy about 12% of the total space in the economy, Food Service is going to contribute Rs 24351(Cr) and occupy about 10% of the total space in the economy, Home Appliances Rs 16346 (Cr) and occupy 7% of the total economy, Jewellery and Watches is going to contribute Rs 8770 (Cr) and occupy about 3% of the total space in the economy, Footwear is going to contribute Rs 6508 (Cr) and occupy about 3% of the total space in the economy, Books Music Toys and Gifts is going to contribute Rs 3722 (Cr) and occupied about 1% of the total space in the economy, and others also are going to contribute Rs 14692 (Cr) and occupy about 6% of the total space in the economy by 2015.

Further from the table it is clearly stated the by 2015 the total earnings from organized retail outlets which is R 28000 (Cr) will increase to Rs 246434 (Cr) with maximum contribution being from Food Grocery and General Merchandise.
Retailing should follow the following trends that will redefine the retail business environment in the future:

1. The Downsizing of (Almost) Everything

Expect (almost) everything except mega-store chains and formats to downsize during the decade—products/packaging, retail chains, store footprints, living spaces. The sustainability trend will drive the downsizing of products, packaging, resource consumption and waste. More people will look for smaller, more personalized spaces—both to live and to shop. Accessibility to almost infinite choices (at least online) and the growing ability for consumers to remix, adapt or create what they cannot find will splinter much of mainstream retailing into smaller niche offers—down to units of one.

2. The Globalization of Retailing

For many big retailers, the next growth phase will be about segmentation and localization. Big retailers of the future will get there by operating multiple formats and multiple concepts, targeted to specific customer segments, in specific local markets, for specific end-use needs and occasions, while operating in specific shopping modes. Retailers will need to combine global market savvy and sourcing with local market delivery and know-how.

3. Breaking the 80/20 Rule

The future of retailing is selling less of more. Aggregation of small will be the new big. The traditional rule of thumb that 20 percent of SKUs equals 80 percent of sales will no longer be the rule. In 2015, the other 80 percent of units will represent an increasing share of the sales and a disproportionate share of the profits. With expanded access, consumers will buy less of what’s “popular” and more of what “suits me.” Retailers that can figure out how to deliver what niche markets are looking for will reap the profits. “Now you see it, now you don’t”
(limited editions, fast fashion, customization, et. al.) will replace “stack it high and let it fly” as the profitable retailer’s mantra.

Niche concepts will flourish on the Internet, benefiting economically from an environment that effectively aggregates far-flung, widely dispersed even global demand. More niche retailing will populate the bricks-and-mortar world, as specialty retailers target finer niches with bigger portfolios of smaller footprint, smaller store count, more narrowly focused concepts. Fresh, new resources will find routes to market in alternative venues that emerge to showcase the latest trends (rent-a-stall/case, designer flea markets, roving trunk shows, store-in-store) and, of course, via the Internet.

4. The Unchaining of Retailing

Size does not equal success in 2015. We will see the demise of the cookie cutter specialty chain. The day of the 1,000-outlet specialty chain delivering the same homogenous, narrow and deep assortment everywhere, regardless of location, is over. Chain size will top out at lower store counts. Retailers will expect to achieve more of their growth from new concepts than from established concepts. The new specialty mega-retailer will comprise an ever evolving portfolio of concepts that are fleet of foot and always keep a finger on the pulse of consumer segments. Specialty retailing will be reincarnated by going back to its roots and getting closer to the customer.

To spur growth, many specialty retailers will follow extension avenues that help maximize customer value and leverage organizational skills—e.g., a series of life stage concepts designed to sustain a lifelong relationship with the customer (and his/her progeny); new product and service concepts that help serve all of a customer’s lifestyle needs; or concepts that leverage lifestyle/ stage expertise and capabilities at different price tiers.
5. Global Consolidation of Big Box Retailers

Big box retailing doesn’t go away in 2015, but expect to see even greater concentration of market share on a global scale. Those players that remain after consolidation will be stratified by price tier and lifestyle. They will position strategically as share of life portfolios designed to meet target customer lifestyle or lifestage needs inside a single box. They will target modular flexibility inside the box and multi-channel reach around the box. They will operate multi-format extensions of the box to meet different customer needs, occasions and shopping modes.

6. Share of Life Retailing

Retailers will define themselves by the customers they serve, rather than by the products they sell. Retailers will grow by positioning themselves as more than just purveyors of “stuff” but also as one-stop purveyors of lifestyles or need states. Service offers will help bring the brand experience to life. The new one-stop shop will focus on customer segments with edited assortments, simplified choices (eliminating the “tyranny of choice”), and new combinations of goods and services. Do-it-for-me service and solution offers will surge as retailers strive to capture a share of the growth in spending on services. Service offers will help buffer retailers from falling margins as products become more commoditized and price-competitive. More retailers will leverage their brand license into the realm of services, making the next concept in their portfolio one that sells services, not products. More retailers will emphasize end-to-end brand experiences—encompassing pre-purchase, point-of-purchase and after-purchase. They will target not only ease of shopping but also ease of use.

7. The “Un-storing” of Retailing

It will get harder to answer the question “what’s a store” — much less “what’s in a store.” Multi-channel will multiply—covering more than stores, catalogs and an online presence—and come to mean a bigger, broader brand presence.
Distribution and marketing models will proliferate. Harbingers include pop-up stores, virtual stores, and retailers partnering with service/experience purveyors (e.g., spas, cruises, hotels) or developing their own. Stores as we know them increasingly will exist primarily to provide brand experiences and immediate fulfillment. The definition of “store” will expand—encompassing inventory-less stores, “endless aisle” in-store kiosks that customers can shop for extended product lines and hard-to-find SKUs, drive-throughs and touch-screen windows that take orders, store-within-a-store retailers that live in host facilities, retailers that sell services (not stuff), and more.

8. **The Rise of the Anchor Place**

Like the store of the future, the shopping center of the future will be closer to the customer. We will see the demise of the anchor store as the main draw. The place becomes the destination. New generation lifestyle centers will offer the ultimate in simplification and convenience—a “pre-packaged total lifestyle experience” where busy consumers can shop, work, socialize, eat, be entertained, live. New tenant mixes and anchors will focus on customer lifestyles, not just customer shopping styles. These centers also will provide a sustainable (cost-effective, resource-efficient) response to the land-use dilemmas of the future—when anticipated population growth will outstrip available land mass if suburban growth continues in the current mode.

9. **Consumer as Co-creator**

The line between maker and consumer will blur. Consumers will have almost limitless opportunity to get what they want by participating in the value chain as creator, co-creator, adapter, editor, re-mixer and re-packager. Unprecedented levels of customer connectivity—pre-manufacture, pre-shop, while shop, post-shop—will actively engage consumers in the development and customization of their own products, media and shopping experience. We will see more customer-driven R and D, more mass customization, more personalization and more onsite “manufacturing.” Personalization will thrive in the digital world, unhampered by
time and materials costs, but more and more brick-and-mortar offers will benefit by incorporating personalization options into the mix, as well.

10. Exclusivity Escalates

Penetration of private brands and manufacturer exclusives will explode across virtually all categories as retailers require differentiation, versatility, newness and return on inventory investment. Private brands will be key as retailers strive to satisfy niche opportunities, enable customization and keep pace with here today–gone today trend lifecycles. Umbrella brands will enable retailers to put their stamp on an expanded range of product and service offers. More retailers will invest in vertical end-to-end supply chain capabilities or require seamless virtual supply chain capabilities with manufacturers when it doesn’t make sense to do it themselves.

11. Suppliers Defend Turf

In 2015, suppliers will live by two credos: “The best defense is good offense”—and—“If you can’t beat them, join them”. Supplier-retailer relationships will be increasingly collaborative but also increasingly competitive. Branded supplier-retailer partnerships will multiply but so will retailer private brands. More retailers will use or license brands to convey credibility. More suppliers will work vertically with retailers on unique brand and product offers—sourcing through selling. Suppliers will gain back some of the power they have ceded to retailers in the past decade. With the Internet, consumers will have visibility into the full supplier offer—not just what is on the retail shelf—de facto emerging as the ultimate consumer-pull strategy. The next step for suppliers will be to provide consumer access—anything they can see they can buy. Some will go supplier direct. Some will work with retailers to ensure the products consumers want reach the retail shelf (real or virtual). Also expect more suppliers to set up shop as retailers—although the retailer will never be completely disintermediated in some categories, such as groceries, where product aggregation is critical to shopping
experience and efficiency. It will be incumbent on suppliers to engage consumers to build brand and product relevance.

12. Power to the People

Tools and technology will change the balance of power in retailing, shifting the power to the people. Consumers will have almost perfect information access about products and pricing. It will be almost impossible for retailers and producers to maintain a significant difference in margins on widely distributed commodities, underscoring the importance of differentiation, innovation, and integrated lifestyle approaches to doing business. Consumers will wield clout through social networking, value chain involvement and aggregation. Expect to see the reincarnation of group buying—not for B2B, but for B2C. Expect consumers to want almost perfect product access—what they want, when they want it, in the size they want it, at the price they want to pay for it, at the place they want to shop for it. If they can’t find what they want, they will expect the opportunity to conceive or create it.

13. New Technological Environment

Technology will pervade the living and shopping experiences of 2015. Most of the technology trends anticipated for 2015 are progressions of trends that are under way today; they will just be more ubiquitous—tools and technology within reach wherever, whenever and for whatever purpose. Consumers can expect to shop location-free—via wireless broadband, wireless devices and instant translation. They can expect to shop intervention-free—via digital homes, networked appliances, automatic replenishment, man-machine interaction and device-to-device communication. Social networking will evolve into profitable business models that give consumers more control over what retailers sell and what suppliers make.

Technology will help customers enjoy a more personalized shopping experience via customization options, fit/size scanners, and fitting rooms outfitted with touch-
screen connectivity to request different sizes or items, social networking via live video and virtual try-on options. In-store technologies will help create a more efficient and engaging shopping experience, via such options as holographic sales assistance, smart carts, product and information access kiosks, interactive digital media and messaging, biometrics and other forms of instant payment. Also expect the emergence of location-based advertising that will tap into prospective customers on a permission basis, based on knowing their location through their mobile devices. Companies will be able to send consumers relevant offers while they are en route and drive measurable sales.

14. Value Chain Evolution

Today’s value chain is designed for mass merchandising. The value chain of 2015 will need to support niche merchandising, down to the location, day part and customized individual unit. It will be defined by connectivity, early capture of true demand signals, total visibility, shared data, real-time information, real-time response, decentralization and integrated shared logistics. It will enable much clearer insight into true demand via the proliferation of interactive “Choiceboards” designed to help consumers see and select from the full extent of product options available. We will see a transition to “true demand” (what the customer wants vs. what the customer was forced to buy) and a transition to lean consumption (minimizing waste by producing to demand).

15. Triple Bottom Line Scorecard

Retailers and suppliers will need to become better global citizens. In 2015, the definition of corporate success will take into account environmental and social performance in addition to financial performance. Retailers and suppliers should expect to be measured against an expanded set of criteria—planet and people as well as profit. Companies will be evaluated on how well they meet the needs of a wide variety of global stakeholders—customers, employees, suppliers, investors, communities and regulators. They will be judged on how well they manage and
conserve increasingly scarce resources and how effectively they meet rising safety and wellness standards.

16. Franchising

Till about 2008, 15 percent of those companies who are into retail were into franchising and by the end of 2009, a good 85 percent have opted for the franchising model”, Marya said. Apart from the obvious advantage of not requiring investments in assets, cost savings via higher efficiency is the other key reason why retailers are increasingly looking at the franchise model. If we compare an outlet owned by a company vis-à-vis one owned by its franchisee, we see 7-8 percent higher efficiency. The savings come in the form of lower shrinkages and sticking to bare minimum overheads. In every retail business, there is about 2-3 percent shrinkage (the industry lingo for stock loss, damages or even theft), which almost gets eliminated if a franchisee is running that. Franchisees never overstock they always tries to optimize capital.

17. Birth of Specialized Retailing

The retail industry reached adolescence transforming from unorganized to organized over the past five years. It would now progress towards specialized retailing. “Earlier we used to go to a consumer hardware store; then came E-zone or Croma; we will now see birth of single-brand outlets. Outlets selling only Apple or Blackberry products would be better placed to offer evolved customers the full brand promise and there customer care executives won’t be at a loss explaining high-end product features. Though not a specialized format, retailing to people on the move – or ‘travel retailing’ would be a trend to watch out for. “Every new metro station that comes up and so many airports being planned across the country could be the new retail hubs.

The retailers and suppliers to succeed in the new landscape of 2015 should have a farsightedness’ which will help them to tackle the business complexities
Recent history focused on efficiencies in the form of technology, operating strategies and sourcing strategies. This is a fundamentally mature strategy, with most companies at parity. It is also fundamentally a mass marketing strategy.

The challenge for retailing in 2015 will be to manage complexity and diversity—businesses that span the globe while reaching out to the niche of one.

This will require focus on a new set of strategic capabilities and solutions which are as given below:

- **Shopper Insights**

  Understanding shoppers will be more critical than ever in 2015. Given the anticipated growth of niche retailing, the diffusion of media and markets and the increasing reliance on point of sale as point of communication, shopper insights captured in the retail environment will be key to driving sales.

  Retailers will need to understand what motivates the shopper at the point of sale. Suppliers will need to work with retailers to determine exactly where a product fits within the retail mix—and how that product will help drive sales and profits.

- **Managing Complexity in 2015**

  Understanding consumers is not the same as understanding shoppers. Conventional consumer research typically focuses on who is shopping for which products and where. Shopper insights research is about understanding the needs, attitudes and behaviors of customers in shopping and buying mode—why the shopper buys (or does not buy), why certain items were purchased (and why other items never had a chance) and how the shopping experience affected the buying decision.

  For companies that can manage complexity and respond to market forces, 2015 will be a time of tremendous growth opportunities. The companies most at risk will be the incumbent leaders—if exploitation of existing opportunities causes inertia on newly emerging opportunities.
In 2015, the market will talk to the retailers and suppliers that tune in:

- Consumers will tell you what they want—if you know where to listen
- More places to listen to consumers and spot trends
- More tools and technologies to enable more focused responses
- Greater opportunity to be specific, individualized and relevant.

8.4 The Economic Meltdown - Its Impact on Indian Retailing

The retail market in India is facing slowdown with the ongoing financial crisis taking place across the world markets. Since the markets are internally linked to each other, the impact of the crisis is generally shared among all.

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.

The current meltdown in the world markets is shaking the globe today. Not even a single country seems to be off the hook. The high level of inflation has been a wet blanket for the global markets. The roots of the world markets are nearly pulled away with the heavy downfall of the American financial giants. Amongst many countries, India too is not exempted from the impact of world financial crisis. All this is leading to a temporary recess for the markets from a regular busy schedule. However, these fluctuations are not new for global market. For decades, markets across the world have been witnessing such ups and downs. But the ultimate fact is that the market growth rate is constantly high when comparing to such downfalls.

The inflation or the economic slowdown is adversely affecting the retail industry. With the suddenly disturbed economic status, consumers are gradually losing interest
on buying. And for those interested, the unbalanced income, followed by the economic slowdown is not meeting their buying requirements. This evolution soon disappointed the hopes of retail industry. Anyhow, it’s all a short-term crisis for the retail industry until the things turn around.

The following circumstances are creating unwelcome snags for the Indian retail industry.

1 Low marketing and advertising budgets will work out:

To rectify the things, right solutions are always excavated. Whether the market growth is slower or faster, its potential should not be left unused. Anyway, new and innovative solutions must be invented to answer the current market slump. Cutting down marketing and advertising budgets will reduce the financial burden on retailing industry. Marketing and advertising are the supreme factors for the retail industry to penetrate more into retail market. Following innovative marketing and effective advertising at low prices will be a brilliant move for the present day market trends.

2 Challenge to get more customers at low cost:

In this current meltdown, driving the customers to the retail stores seems high and dry. But, the markets always have a hidden potential despite the slump. Today, the changing market trends demand the retail industry to expand its reach to more customer touch points so as to drive them to the retail points. ‘Low investments and high returns’ is now made possible with the arrival of technology enabled marketing services. The retail industry should realise that it would be at a fair advantage of including technology enabled marketing services to unfold the immense retailing opportunities.

3 Present communication channel is ineffective and involves high costs:

The present channel for customer communication is apparently ineffective, which the retail industry has been following for the decades. Moreover, it always involves high costs too. The outdated communication channels should be
modified according to the changing market trends. Now, an uninterrupted marketing channel, which will be continuously tied to the shoppers, is needed to boost up the retail industry. Going beyond the traditional marketing at low prices will cut down the high costs and brings good returns.

4 Economic slowdown:

The financial crisis is adding to the pressure on global economies. The International Monetary Fund (IMF) now sees the world entering into a major slowdown. The recovery would depend on three key factors: Commodity prices stabilizing, the crisis in the US housing sector bottoming out and emerging economies providing a source of resilience. But, if the current crisis were to last longer, the emerging economies are more likely to be affected.

So rather than open more stores, retailers have shifted their focus to consolidate and improve operations by enhancing efficiency and profitability through effective supply chain management, to save inventory and logistic cost and check on wastages. To build up customer loyalty, renewed efforts are being made to undertake intensive relationship marketing and improve in-store service. Retailers are also pushing private labels to protect their profit margins while promoting sales by offering special discounts or other value-for-money schemes.

- Retail and Recession

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.
Future prospects

However with the subsequent revival of the boom period, growth of organized retail and consumption is expected to take a higher trajectory. Consumers presently conditioned into sparing behavior will eventually unleash their pent-up demand for preferred brands. So the present phase can be favorably construed as an opportunity for the retail industry to realign its operational structure, study consumer behavior and build consumer-centric strategies. On a greater platform, a mall leaves an indelible impression on its immediate catchment area and further. Apart from changing the physical skyline, it has a spill-over effect to the human web associated with the mall. Consumers change their consumption patterns, their lifestyle activities and inculcate the mall-culture – which provides further growth opportunities for the fledgling retail industry. Also the importance of the retail industry as a job and wealth creator cannot be undermined. This leads to a process where one generates the other and is simultaneously transformed, paving the way for the socio-economic revolution to gain greater ground in India.

In January 2012, CARE Ratings released its projections of various economic variables for 2012 and 2013. The Report projects that India’s GDP growth in financial year 2012 will be 7 percent, which is likely to rise to around 8.5 percent in financial year 2013 under certain assumptions made relating to the global economy and domestic policy responses. Inflation on the other hand is to moderate to 5 percent in financial year 2013 based on a good harvest and stable global commodity prices.

The projection for the fiscal deficit for FY12 has been placed at 5.5 percent which is expected to range between 5-5.5 percent in financial year 2013 mainly due to pressure on the expenditure side. The RBI is expected to lower interest rates in the course of the year, with the repo rate coming down by 100-150 bps. The outlook further expects the rupee to remain volatile as euro conditions will remain in flux while the domestic current account deficit will
be under pressure at 3 percent of GDP which will still be an improvement over the 3.5 percent deficit expected in financial year 2012.

The economic conditions in the country in the current fiscal have been challenging with inflation being the major factor driving economic policy. This has had a major impact on other economic variables with official projections being modified downwards along the year. Policy formulation has become even more difficult with the volatility witnessed in the forex market, where the rupee has tended to move downwards. The prospects for financial year 2012 may be drawn based on the present combat against inflation, slowing down of investment, pressure on budget deficit, widening current account balance, depreciating rupee and uncertain capital markets. Expectations for financial year 2013 are based on certain perceptions on the state of the global economy as well as the expected policy of domestic authorities.

8.5 Indian Retail Industry - A Promising Future for the Investments

Retail industry in India is greatly fragmented comparing to the developed and other developing countries. This presents enormous prospective for the structured retail industry to flourish throughout the country, as the market for the final product is huge. Retail industry is largely led by private companies. The distribution for fast-moving consumer products includes many layers like carrying and forwarding agencies, distributors, wholesalers, stockiest and retailers.

The Indian retail environment has attained $ 210 bn quiche, witnessing a strong development pace of five percent per year (according to a latest survey by Price Waterhouse Coopers). As per the estimation 200 malls, presenting additional 50 mn sq ft of retail space will be ready in next two years. Existing retail space in 160 malls is nearly 32 mn sq ft.

Organized retailing now accounts for three percent out of the total retailing, however is predicted to extend to 10 percent by the year 208. In other means,
organized Indian retail sector would triple its share of the total market within the coming four years, generating new eight million jobs, in addition to the 21 million jobs that are already created by retail sector. As per the estimate, the current retail business witnesses more than 12mn retail outlets, which include all shapes and formats.

The analysts foresee bright future of the retail sector. A huge number of shopping malls, nearly 100, have come up in the recent past, generating 20 mn sq ft. retail space, extending more space of about 12 mn sq ft to it. Nearly 60 malls are on the verge of completion and may be operational by the end of current financial year. A forecasted number of nearly 200 malls, in a move to make additional 50 mn sq ft of retail space, will be completed within the next two years.

According to analysis by KSA Technopark, India has lowest per capita retail space accessible around the globe. The study depicts that India require generating at least 110 mn sq ft of additional retail space a year for many years, only to meet the demand generated on account of a continued GDP growth rate of nearly 6 percent. Hitherto, the Central Government as well as State Governments and local municipals have failed to match steps with drag on the economy of an incompetent retail sector. This space crisis is leading to a condition, in which prime locations demand extremely high rates.

To make India's emerging retail market open to foreign direct investment (FDI) has been on the Government agenda since long time. A number of transformations and practices were being done, but the sources disclosed that the policy, which is under finalization, is such that FDI in the retail market would lead towards the rear connections of manufacturing and production and not only set aside to open of retail stores of global and imported brands.

The global retail giants like Wal-Mart, Gap, Tesco, Versace, K-Mart/SEARS, Carrefour, ZARA, FCUK, Fendi, NEXT, Mother Care, IKEA, Trussardi, DKNY and Debenhams have made plans to march in the Indian market. ESPRIT, GUESS, Chanel, Mango and many other global marked their presence in India by
implementing licensing and franchisee agreements. The global retailers on the line of control, awaiting the green signal from Govt. to enter Indian retail market. However, the current scenario has encouraged Indian players to speed up retail expansion and fresh retail ventures.

Companies like Shoppers Stop, Trent, Reliance, Lifestyle, Tanishq, Crossroads, Akbarallys' and Tanishq already have planned to invest over Rs 5,000 cr. Trent is on the edge to take both its brands 'Star India Bazaar' and 'Westside' to new cities, meanwhile Shoppers' Stop has recently geared up for expansion of present ones and to add 11 new stores including two hypermarkets. Also, Pantaloon has planned to add eight 'Big Bazaar' malls within the next six to eight months.

After demerged, Reliance Industries Ltd (RIL) is substantially getting ready to enter in field of retailing. RIL is poised to emerge as the single largest player in this sector. On the other hand, Tesco's, Wal-Marts or Safeways ultimately enter in the country. So finally, Shoppers' Stops, Westsides, Pantaloons and Westsides in coming years have will face stiff competition. More than the Tesco's and Wal-Marts, Reliance, Godreg and Tata are likely to attain reach to the country's interiors.

At the same time, several apparel exporters are keen to get opportunities in retail sector. Gokaldas Images, OC, TCNS, Gokaldas Exports and Celebrity Fashions are some of the exporters who already have expanded into retail sector with triumph.

A ‘Vibrant Economy’, India topped A T Kearney’s list of emerging markets for retail investments for three consecutive years and stood 2nd only behind Vietnam this year. The 2nd fastest growing economy in the world, the 3rd largest economy in terms of GDP in the next 5 years and the 4th largest economy in PPP terms after USA, China and Japan, India is rated among the top 10 FDI destinations.

On 24th November, 2011 UPA government had taken a decision to allow 51 percent FDI holding in multi-brand retail trade (MBRT) and raise the FDI ceiling from 51 percent to 100 percent in single brand retail trade (SBRT). The central government claims that allowing FDI into India’s retail sector will benefit small farmers, expand employment and lower food inflation. It was an executive decision taken by the union
cabinet on 24th November without any discussion in Parliament or consultation with various stakeholders. After being under relentless attacks for a week, the UPA government was forced to “put on hold” its decision. But keeping in view the size of retailing sector in India, the entry of FDI in retailing cannot be postponed for long because government is encouraged by the outcome of economic policy of 1991 in India.

8.5.1 Indian Retail Landscape

Table 8.3

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Year</th>
<th>$ Billion Retail Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1998</td>
<td>201</td>
</tr>
<tr>
<td>2</td>
<td>2000</td>
<td>204</td>
</tr>
<tr>
<td>3</td>
<td>2002</td>
<td>238</td>
</tr>
<tr>
<td>4</td>
<td>2004</td>
<td>278</td>
</tr>
<tr>
<td>5</td>
<td>2006*</td>
<td>321</td>
</tr>
<tr>
<td>6</td>
<td>2008*</td>
<td>368</td>
</tr>
<tr>
<td>7</td>
<td>2010*</td>
<td>421</td>
</tr>
</tbody>
</table>


Table 8.3 shows the increase in level of income of the Indian consumers from the year 1998 to 2010 resulting in the consumerism and fueling the retail growth. Based on the table the research framed, 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 benefiting 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 industry has had years of debate and discussions on the risks and prudence of allowing innovation and competition within its retail industry. Numerous economists repeatedly recommended to the Government of India that legal restrictions on organized retail must be removed, and the retail industry in India must be opened to competition. Traditionally the retail industry in India comprised of large medium and small grocery stores and drug stores which could be categorized as unorganized retailing. Most of the organized retailing in India had recently started and was mainly concentrated metropolitan cities.

The retailing industry seems poised for a significant growth in the coming years owing to the presence of vast market, growing consumer awareness about product quality and services, higher disposable income of consumers and the desire to try out new products. The growth of retail industry could be seen in the chart given below:
Chart 8.1
Market Maturity of Organized Retail Outlets in India

Chart 8.1 shows that till 1980s it was traditional retail that was popular and had griped the market, but as the trend and demand started changing there has been a gradual change in mid 1980s with development of departmental stores. Gradually by 1990s there has been a drastic shift with onset of the Malls and in 2000 the development of multiplex and discount formats organized retail has come to stay and has great potential, provided the developments are able to incorporate designs that are of international nature and become the extension of the hospitality industry. Mall marketing as we go along will need to be very enriching and fulfilling so as to enable
the patrons to enjoy the complete experience which needs to be different from buying online. This means that the retail marketing will become highly specialized and the skill sets will become very important to succeed. The government’s five year tax relief for opening shopping malls and multiplexes will boost this trend to a great extent. It is predicted that between 2010 and 2015 there will be growth of larger malls.

A number of changes have taken place on the Indian retail front such as exponential increase in availability of international brands and a growing number of malls and hypermarkets as a result of easy availability of retail space. For the customer, the emphasis has shifted from reasonable pricing to conveniences; efficiency and ambiance, all interspersed to deliver unforgettable family experiences. India is now on the radar of global retailers. Accelerated development of retailing industry in the country and building brand value of domestic products is essential not only for marketing our consumer products more efficiently, but also for the development of our own retailing industry.

8.6 Conclusion

The Indian retail sector is ready to take on challenges from global retail players such as Wal-mart and Carrefour because unlike them, they have a better understanding of the Indian consumer’s psyche. Ultimately, a successful retailer is one who understands his customer. The Indian customer is looking for an emotional connection, a sense of belonging. Hence, to be successful any retail outlet has to be localized. The customer should feel that it is a part of his culture, his perceived values, and does not try to impose alien values or concepts on him. Indian customer is not keen to buy something just because it is sold by an international company. Ultimately, it boils down to how much localization and adaptation the company is willing to do for India. Other than tremendous money power, global companies have nothing extra or special that the Indian retail business does not have. Only two percent of India’s retail market is organized. The future shows tremendous potential for growth in the retail sector. Almost all large companies worldwide are looking to establish a base or stake in the Indian market. In this scenario, the Indian retail sector itself must seize
the initiative to realize the dreams of contributing to a prosperous and booming economy. The focus should be on the Indian horizon before looking for retail opportunities in other countries because India itself is a big retail market. In the near future India will see a phenomenal growth of shopping malls and specialty retail stores. The specialty stores will cater for home, electronics, furniture, watches, sunglasses and assorted items. There will be more fashion stores for youth. Specialty retail stores and malls are the future of Indian retail market.

Industry experts predict that the next phase of growth in the retail sector will emerge from the rural markets. By 2015 the rural retail market is projected to have a total of more than 50 per cent market share. The total number of shopping malls is expected to expand at a compound annual growth rate of over 18.9 per cent by 2015. According to market research report by RNCOS the Indian organized retail market is estimated to reach US$ 50 billion by 2020. Recently, the government decided to allow 51 per cent FDI in single-brand retailing which, has been welcomed by the industry. However, most are of the view that its impact will be largely limited to attracting more luxury brands. The limited foreign direct investment allowed by the government in the retail industry will not have much impact on the Big Bazaars and Shopper's Stops but it will allow luxury brands like Marks and Spencer, Louis Vuitton or Versace - which are currently taking the franchisee route - to open more stores in the country. There is an impending retail boom likely to happen sooner. The signs are all over the place. For few years foreign retailers will have the role of facilitator for to standardize the agribusiness and to unify customer’s preference across the country. The competition will help to increase the quality of service of the existing local retailers and greater customer satisfaction in Indian society. Concept of self-employment will vanish and sustainable small industries will be roped with the big chains. There will be slow evolution of retail market over the years.

Therefore industry experts predict that the next phase of growth in the retail sector will emerge from the rural markets. By 2015 the rural retail market is projected to have a total of more than 50 per cent market share. The total number of shopping malls is expected to expand at a compound annual growth rate of over 18.9 per cent by 2025.