CHAPTER-5

INDIAN EXPERIENCE OF ORGANIZED RETAILING:

1. Impact on Consumers.
2. Impact on Small Retail Shops.
3. Role of FDI
4. Employment
5. Consumer Expectations
6. Margin and Profitability

Retail industry in India comprised of large medium and small stores was so far highly fragmented and unorganized occupies a prominence place in Indian economy due to its significant contribution toward employment opportunities and national income. Most of the organized retailing in India had recently started and was mainly concentrated in metropolitan cities, are now gradually and steadily gaining foothold in other urban parts of the country despite being one of the biggest markets organized retail sector in India is facing a paradoxial situation on one hand it is growing at the rate of 133% per annum and the other hand its share in retail sector could not
even touch the double digit, reflecting huge scope for growth. The rapid rate of growth of organized retailing can be attributed are:

1. Rising incomes and consequent increase in disposable incomes.

2. Better infrastructure.

3. Rise in consumer awareness

4. Consumer keenness to buy branded products

5. Consumer desire to purchase quality product and services.

Retailing in India is witnessing a boom, growth and speed of organized retailing has become a national phenomenon. More and more corporate houses including big real estate companies are coming into retail business in the form of Malls or shopping complexes. Traditional look of shops music stores garment and foot ware stores are overtaken by new and interesting retail formats like superstores, specialty stores hyper malls etc. This revolution in retail sector is not only affecting the bigger towns but also influencing the rural retailing in India.

Increase in literacy, exposure to media, greater availability and penetration of variety of consumer goods in India is also
narrowing down the spending and consuming differences between the consumers of metros and rural areas. Corporate investment in the retail business is good news for India’s retail revolution Indian business houses like Reliance, Raymond A.V. Birla Group, Tata’s, RPG Group, Raheja’s Globus and Piramal’s etc. foray into retailing. It seems that Indian retailing business have begun their journey towards corporatization. Retail business in India is changing. Organized retailing has brought remarkable advantage for the consumers. Organized retailing came into existence when few textiles mill show rooms or Bata outlets were opened across the nation, so far organized retail has traveled a long journey it is gradually inching its way towards becoming the next booming industry. According to India retail report 2005 the size of organized retailing market (Rs. 35000 crore was expected to reach Rs. 10000 crore by 2010 at an average growth rate of about 30 percent. The whole concept of shopping has altered in term of format and consumer buying behavior, ushering in a revolution in shopping in India according to confederation of Indian industries (CII) 300 new malls are being built in Indian cities and there are plans for 1500 new super markets and 325 large departmental stores and these retail outlets will be operational in 2008. Many international retailer like Wall Mart, Carrefour SA, Europe’s largest retailer, Tesco P/C UK’s largest retailer have planned to enter the Indian retail market, At present India is the most attractive destination
in a group of 30 emerging retail markets of the world, The
growth rate of retailing is 37% and expected to grow at 42% in
2008. Retailing one of the largest sector in global economy is
going through a transition phase not only in India but the world
over.

1. **IMPACT ON CONSUMERS:**

   The profile of the Indian consumers is changing rapidly
However in India there are no uniform trends with respect to
consumer buying behaviour There are visible differences in the
shopping pattern of consumers across income segments.
Organized retailing has definitely made head way in the upper
class. In India the consumer and consumption habits are vastly
different. The lifestyle habits and preferences of the consuming
classes are shifting from simplicity to complete self indulgence,
customers are increasingly looking for convenience experience
and service and secondary emphasis on product and price. The
change in the nation's social structure like improvement of
Indian economy, consumerism, urbanization, profusion of
brands have been the main casual factor for the development of
organized retailing in India. Consumer behaviour trend has been
changing in locations where organized retail has taken roots.
The increasing number of nuclear families, double income
households and working women, greater work pressure and
increased commuting time have put the consumers under
constant time pressure. The other equally important factors in the changing Indian Landscape are increasing influence of children, gradual acceptance of frozen, semi processed and processed foods by the Indian consumer. The growing influence of Television in decision making and improvement in the literacy rates. The organized retail stores are providing.

1. A pleasant shopping environment.

2. Convenience of one stop shopping with wider product portfolio at a single location.

3. Speed and efficiency in processing.

4. More information

5. better quality hygiene and discount.

There is an increasing pressure on time with very little time being available for leisure, consumers are seeking the convenience of one stop shopping where by they could have better utility of time. The profile of Indian consumer has undergone a dramatic and drastic change in the past two decades, on the one hand, Three has been a gradual restoration of consumers severe gently owning to injection of completion into the economy on the other hand the liberalization of economic policies has enabled him to access to things which were
available only in foreign lands. This radical change in Indian consumers profile, has prompted the creation of retail chains, food chains and shopping malls. Over the last few years many international retailers have entered the Indian market on the strength of rising affluence level of the young Indian population, This era of globalization, Consumerism and liberalization is giving a new shape to consumers taste and preferences. With the international exposure the shopping list and the shopping styles have drastically changed. The types of products which were consumed by the consumer a decade ago are no longer in the shopping list now a days majority of consumers have become variety conscious and to satisfy this organized retailers managing huge inventory, visual merchandise etc. shopping has been emerging as an important leisure time activity. The trend has been of shopping, eating and entertainment. Indian urban household is striving to improve its lifestyle and the number of families have expressed desire to purchase have grown at a rapid price over last few years, this is a sign for marketers of these products to attract customers to the stores. There has been an increase in the spending on Eating out and movies and theatre by Indian consumer. The relative importance of various items in the average monthly budget has changed dramatically in recent years and consumer expenditure in India is still a hostage of annual economic growth. The economy of India resides on more than 10 million tiny retail shop but the growing number of
Indian are shopping at modern retail chain it is due to organized retailing, customer can get wide range of products in one place having comfort and convenience Modern retailers have reoriented their business around customer, increased interaction and sophisticated analysis techniques have given retailers unprecedented access to the mind of the customer and they are designing marketing and promotion campaigning, optimize store layout and manage e-commerce operations about customer buying patterns—knowledge helped in augmenting customer loyalty. Organized retailers are paying greater attention to retail consumers and encouraging regular customer to purchase more, by meeting consumer expectations, increasing value perception and offering the right mix of price product differentiation experience and service, Indian consumer has propelled. Structural and organizational change in retailing in which new products services and delivery systems are adopted to fulfill the requirements of new and ever demanding customer, purchasing power of consumers has multiplied manifold, interest rates have spiraled down wards which has helped consumers in obtaining loans at a cheaper rate and greater propensity to consumers. India's middle and high income population has notched up an impressive growth and increased awareness has resulted in a perceptible change in the behaviour and outlook of the urban consumers, they are on the lookout for convenience speed efficiency and wide range of products
simultaneously one stop shopping experience. Media invasion has changed life styles of consumers and has translated into greater demand on variety and assortment, value service, and convenience. Branding of products has driven the growth of the specialty chains and has given scope for retailers to upgrade existing brand outlets. New retail chains and formats are transforming the shopping experience of India's Consumer class. Social dynamics lead to emergence of new customer groups as well as new purchase opportunities.

2. IMPACT ON SMALL RETAIL SHOP:

India has the largest shop density in the world nearly 97% of the retail industry is run by small independent retailers. The organized retail industry is hoping to get 20-35% of the market in coming 10 years and this will create massive displacement of small shops and workers in those shops. The unorganized sector that comprise of 97 percent of the retail sector, ranges from grocery stores to the corner shops and are spread across six Lakh villages and thousands of small towns. The organized sector comprises largely Chain stores limited mainly to major metropolitan cities. Large chain have the advantage of cutting costs through volume buying and they have greater control over the quality of goods they sell. There are 12 million retail outlets in India including five million in urban India, most retail outlets are family owned and offer limited products and finance facilities
even banks are reluctant to provide finance to the retail sector which is considered non viable due to small size, competition is growing in the retail business and super stores are being set up in the rural areas. The growth of organized retailing industry is also expected to make the traditional supply chain obsolete. Many companies are doing away with multiple level of distribution formats and trying to cut down the levels of intermediaries between them and their end customers. In an organized retail store customer get a wide choice of products in various brands, variety, entertainment an enjoyable ambience all of which put together offer a good package for purchasing. Customer enjoy the convenience, the ambience, competitive pricing, display touch and feel facility, attention and in general value for money. The customers choice of a store is influenced by other factors such as quality and attitude of staff, parking space and after sales service, various loyalty programs are offered to customers which increase their visit more often and give more business "One stop shop" concept offers an array of products to potential buyers under one roof. In a country like India where consumers are more value conscious discounting stores run by the Big retailers seems to be the successful model for Indian retail. Their value proposition is deep discounts on a wide variety of products and in highly cluttered market place. The Big retailer could differentiate is by offering customer a
different value proposition. Traditional retailers have no choice but improve their value reality.

The reason of increasing popularity of organized stores is the perception of the customer towards its promotion, marketers raise the expectation of their target customers through advertising and other forms of communication. Technology helps big retailers in simplify and improve the quality of customer service. Organized retailer with their financial strength are able to sustain losses for many years till their immediate competition of small retailers is wiped out. After being successful in metropolitan cities big retailers have ventured into smaller Indian towns and rural areas this had prompted entrepreneurs like Kishor Biyani and Raheja to set outlets in Kanpur, Good quality products and excellent service will be on offer, supplier are also benefited through direct transactions with big retailers which enable them to make more profit on their product by doing away with small retailers. Large retailers stepping up growth plan, the Indian retail space is getting increasingly competitive and will become cut throat, with foreign direct investment. The environment in a large organized retail store is significantly different from that in traditional store. In new retail environment consumer is able to see various brands compare them look at option in term of price and offers and then make a purchase decision and this is significantly different from the environment in a traditional Kirana store. Small retail stores
have their own strategic attributes, they are local and operate in
the same block, and they are very convenient know their
customer by name so they offer great customer service, Small
stores tailored their inventory for their customer and many times
they give credit, but the harsh truth that organized retailers have
successfully started their operations in India by knowing the
customer attributes like they want low prices wide range of
merchandise, great customer service. Shopping is no more a
tedious monthly ritual, it is now a funfilled activity consumer
desire value for money and a better shopping experience. Both
the traditional as well as organized retailers are trying to offer
products and services to match the needs of the customers. The
modern retailers are offering wide range of products, good
ambience, proximity and loyalty programmes causing market
shares of traditional stores from 95 per cent retail sales to
around 75 per cent by 2010.

3. **ROLE OF F.D.I. (FOREIGN DIRECT INVESTMENT):**

   India has emerged as the second most attractive global
market for organized retailing. The government liberal policies
and under develop retail industry have excited the MNC's to
invest directly in this sector. The government decision to allow
51 per cent FDI has paved the way for global retailers such as
Wallmart, Carrefour, Tesco etc and Nike, Adidas, Reebok to set
their own stores in India. The entry of foreign players into the
industry has raised the bar for domestic organized retailers in term of quality of products and service and also intensified the competition in the industry. Opening up the retail sector to foreign direct investment would be beneficial for India in term of price and availability of products, opening of the retail sector for global retailers the scenario of Indian retail environment is changing. Government has permitted FDI up to 100% under the automatic route in cash and carry wholesale trading and export trading and 51% in single brand retail has thrown open a host of opportunities for several international brands. The entry of big names in this sector is being welcomed as it is expected to change the paradigm of retailing in India. The foreign global retailer such as Walmart carrefour Tesco and other have started teaming up Indian partners. The Indian retail industry is no more nascent today, there has been a significant change in retail trading over the years a transition is happening from traditional retail sector to organized retailing increase in exposure to western culture has lead to the development of more organized and westernized way of shopping leading to development of large retail store, current norms allow foreign retailers to set up in India via the franchise route foreign retailers are allowed outlets if they manufacture products in India or source their goods domestically. Gradual opening up the retail segment for FDI will work to the advantage of both the consumers and existing retailers, while consumer will have variety of global branded
goods and services to choose from and that too at reachable cost the existing retailers will be saddled with a host of unseen opportunities like joint ventures with foreign partners apart from avenues to up grade their systems.

**Opportunities:**

FDI in retail will enable Indian Economy to integrate with the global economy. It reduce cost of intermediation and entail setting up of integrated supply chain that would minimize wastage give producers a better price. Big retailer would develop efficient supply chain not only to cater to the Indian consumers but also the international market. Therefore our manufacturing and agricultural sector would benefit from their entry. In food processing and agriculture FDI could transform the rural economy. It would generate economic activity and large scale employment in rural areas. Wastage of fruits and vegetables can be prevented by efficient supply chain backed by improved infrastructure, cold storage and transportation facilities. It may generate more jobs because retail chains will have to start either their own manufacturing or out source form domestic manufacturers.

**Threats:**

The Western concept of efficiency in optimizing out put by minimizing the number of workers involved , which not only
increases the social tension in developing country like India, Introduction of large retail chain would push MNC brands much deeper into domestic economy the rich diversity of products and produce that exist in India would be destroyed. The big branded producers achieve a large Market, presence due to their ability to sell celebrity involvement through powerful media campaigns plays a crucial role in ensuring their market dominance. Wal Mart the world’s biggest retailer with Bharti group is going to set its operation in India at prime location in 35 Big cities that house more than million people will sell every thing from vegetable to a electronics at extremely low prices that most likely to under cut those in nearby local stores selling similar goods. FDI would have an adverse impact on employment generation and it would cause displacement traditional shops and reduce the number. The various arguments in support of for an against FDI in retail trade are:

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**Opportunities:**

- Better quality products at a lesser price.

- More employment opportunities.

- Development of agricultural and processed food industry.
• Improved supply chain management.

• Development of tourism industry.

• Improve competition.

• Growth in GDP

• Greater exports

• Increase in tax revenues

**Threats:**

• Foreign brands occupy the market and the mind share of Indian consumers.

• Indian labour considered as cheap labour as the positions are occupied by videsis and not desis.

• Reduction in Indian manufacturing activities gradually due to sourcing of goods.

• Profits finally goes to the foreign nationals exchequer.

• With large scale economies local brands cannot compete with the low price offered by Foreign companies.
• Small and medium scale industries get affected in the long run.

FDI in retail sector creates a healthy competition among local and international retailers to offer superior quality products at reasonable rates. FDI in retail is fundamentally different from that in manufacturing, FDI in manufacturing enhance the productive employment but FDI in retail trade may create job losses and displacement of traditional supply chain. The main fear after the entry of MNC giant like Wal mart, Tesco, Carrefour that they eliminate small neighbourhood Kirana stores, but they would boost exports by directly purchasing from farmers, investment in food processing, consumer is benefited by both price reduction and improved selection. The opening up of retail to FDI is designed in such a way that many sector including Agriculture, Food processing manufacturing, packaging and logistics may reap benefits, FDI influence on the Indian retail sector sets in the total size of the retail trade is expected to grow extensively in the coming years and the consumer segment that have a bent for big malls and hyper markets will lead to growth in organized retailing over the next decade creating more opportunities for employment and better absorption of the agricultural output. FDI will provide a big boost to food products including vegetables Fruits, Fishery and dairy products, with food chains going for direct procurement from farmers and investing in cold chains and other infrastructure. Textiles and
garment, leather products etc will benefit from large scale procurement by international chains.

According to the World Bank, opening the retail sector to FDI would be beneficial for India in term of price and availability of products. Large organized retailers are able to buy directly from producers at competitive prices, technology and scale of operation help organized retailers score over the unorganized players giving the consumers both cost and service advantages. Government should take concrete steps to efficiently develop the manufacturing sector in India, opening up the retail sector for FDI must be in phased manner and with social security measures so that the effect of FDI on the domestic investment in the retail sector and the labour dislocation can be minimized. Government should try to ensure that domestic and foreign players are approximately on an equal footing. However in the absence of strong regulatory framework many sector in India can not rule out unethical practice including predatory pricing and other monopolistic measures, being adopted by foreign players to grab a major chunk of the retail market. The foreign players have high levels of international standards, operational efficiency technology and financial muscle, it will be an uphill task for the major player in India to compete against them.
4. **EMPLOYMENT:**

Organized retail trade employs roughly .5 million people and in unorganized 39.5 million. The fact that about 4 per cent of the population is employed in the unorganized retail trade India has a huge population that has the potential to consume it given the power of spending and that is only possible through large scale development generating employment. The retail industry is going to emerge as a major hirer in the coming years and approximately about eight per cent of the country’s workforce working in this sector. Employment opportunities in retail are not confined to malls and factory outlets alone. It is a field intersecting several other industries at various point and thus has multifarious opportunities to offer right from designing to sales. Scouting the location for an outlet to running a mall. Whether it is selling or buying and merchandising retail industry has numerous jobs to offer. The talent and qualification of the people of various ages and academic background. Retail manager, store manager visual merchandiser, pay roll administrator, category manager, buying administrator, product manager, commercial officer are some of the jobs offered by the organized retail sector. Organized retail in India has the potential to generate 2.5 million direct jobs through retail operation and over at least 10 million additional jobs in retail support activities including contract production and processing supply chain and logistics real estate development and
management etc. Enormous employment opportunities in retail is sharing its part by backing up the economic situation in India. There has been a significant change in retail trading over the years, a transition from traditional retail sector to organized retailing which contribute 7% employment of the national work force. Retail is among the fastest growing industries in India. It is moving towards modernization and consolidation generating employment for innumerable people. Increasing disposable income and awareness level are leading to the growth of the sector and this scenario would bring out lucrative opportunities for the young as well as experienced people.

At present India is employing about 22 million people organized retailing in India makes up for about 28 thousand crore and business is expected to rise to 100 thousand crore in the year 2010. The present scenario depicts that there will be a very high demand for manpower in the retail business. It is predicted that retail employers in India will need more than 8 lakh skilled people in various specialized areas for retail across the country. Due to its correlation with other industry and service sector organized retailing is generating a great deal of indirect employment like security, electrical and mechanical maintenance, property management services, parking sorting, packaging etc. If both direct and indirect employment is taken together organized retailing is bound to create more and better paid, better quality jobs. This is a large growth opportunity in an
organized retail that the country will see after a long time. Young graduate and undergraduate can now look for word to a new career option called retailing.

Retailers are creating more job opportunities by entering into big mall formats. Retail revolution in India has just begun and the will need a large number of skilled personnel. Large outlets such as shoppers stop, Pantaloons, Globus RPG, Reliance have made their appearance but they lack trained employees, Increased branding proliferation of media, arrival of new technology based products and improved means of transportation have given a boost to retail trade. Thus the need for knowledgeable sales staff and trained professional to handle customers at retail stores has multiplied.

5. **CONSUMER EXPECTATIONS:**

The post liberalization era in India has seen a significant change in the market scenario with the consumer clearly being acknowledged as the king added to this some of the changes that have affected India's social structure like increasing number of nuclear families, double income households, and increase in work pressure, putting the consumer under constant time stress and in this scenario customers are constantly looking out for convenience of one stop shopping experience to make better utility of their time, They are also seeking speed and efficiency
in processing and look out for additional information better quality and value items, shorter queues and healthy and clear shopping environment. To meet these demands there has been a evolution in the retail industry. Organized retail industry comprising of supermarket, Hypermarket, convenience stores specialty stores, Malls, discount stores are satisfying the needs of consumers by offering convenience and wide range of products at a competitive price. With nuclear families concept gaining acceptance especially in urban areas entire family going for shopping together these customers are interested in shopping places which have the right mix of shopping, eating and entertainment, while shopping at a supermarket customers expect to be provided a convenient. Parking space, suitable timing, variety of fresh and branded merchandise suitably located, right displays quick checkout counters and a reasonable prices knowledgeable sales person who can provide information and assistance. Organized retailers using frequent shopper programmes both to build up a customer data base by identifying customers as well as to encourage repeat purchase behaviour and retailer loyalty. Through these programmes retailers provide incentives encouraging customer to repurchase these incentives could be in the form of discounts offered on purchase or awarding points for every purchased. These point are redeemable for contain special awards. Organized retailers through value addition in term of customer care initiatives,
special offer, events and promotion are able to add customers delight. Buying at the organized rail outlets in no longer a routine mundane activity. The buyers find it an enjoyable experience. The proportion of fun or entertainment provided in various types of retail outlets has different impact on customers. The concept of "one stop shop" offers the buyer almost every thing he may be looking for an more SKUs (stock keeping units) are made available along with wide variety of food and entertainment.

Changing life style and family structure, changing food habits and buying pattern of the buyers are some of the reason behind the growth of organized retail boom. In a organized retail store customer gets a wide choice of products in various brands variety entertainment all which put together a good package for every body in the family. The customer's choice a store is influenced by factors such as merchandising convenience, parking space and after sales service, importance of these factor vary upon the goods to be purchased. Reputation and brand image of the store. Its location, the ambience that greats a customer signage, convenience and nearness influence the traffic to a store, consumers perception of the breadth of different products and services offered by a retailer under one roof significantly influence store Image, Greater the breadth of product assortment, enables one stop shopping convenience is becoming more important than ever for today's time constrained
consumer. Consumer normally gets better price's quality selection and convenience for their purchase at organized retail chains. Retailers are giving lot of emphasis to sales staff as their behaviour influence the customers, customer service, advertisement by store, promotional discount, product assortment etc can create positive store image in the minds of customer. In the new retail environment customers are able to see various brands, compare them, look at options in term of price and offers and then make and purchase decision, organized Indian retailers have invested significantly in capturing more specific market intelligence as well as real time buying behaviour information. They have identified and settled into a viable business model to meet the needs of the Indian consumer. Competition could impel them to do better, make increased investments and go with better offering to the market. As long as sustainable business emerge, the customer would be a clear winner, getting the best of both price and quality.

6. MARGIN AND PROFITABILITY:

The first challenge facing the organized retail industry in India is competition form unorganized sector, Traditional retaining in India exist since a few centuries in the form of Kirana stores. It is low cost structure mostly owner operated, has negligible real estate and labour cost and little or no tax to pay. In contrast players in the organized sector have big expenses to meet and yet have to keep price low enough to be
able to compete with traditional sector. High Cost for the organized sector arise from high real estate, skilled labour and social security comfort facilities such as air conditioning power supply back up, taxes etc. Despite of that retailing is getting more and more organized in India and entry of corporate like Reliance Tatas, RPG Group over the last few years has brought a professional approach in this sector. Technology, creative store design, aggressive promotional schemes training retail employee, private levels and distinctive approach to supply chain management and efficient inventory management have ensured the success of organized retail in India, the sudden spurt in demand and a greater awareness among buyer for quality products and service created a vacuum that could be met with fine tuned supply chain efficient inventory management and totality customer focused view.

Organized retailers has leveraged conditioned purchasing and supply chain management it ensures that manufacturer supply directly to big retailers rather than through distributor thereby cutting cost hugely. Retailer are looking at strong supply chains that will extract value for them by cutting through these distribution inefficiencies organized retailer in a price sensitive market like India make money from making the supply chain more efficient. Through a combination of cutting cost it is possible to improve the return on capital (ROC) by 10-12 percent, which for on efficient retailer should be 30-40 percent.
Optimum inventory stock, maximizing realization per square feet, in identifying products with higher margins and ensuring depth and width produces are the key areas through which organized retailer can increase their profit.

Organized retailers are looking for ways to establish their bargaining power and one such strategy they are adopting in the creation of their own brands (Private label). By doing so they become less dependent on branded manufactures and give them a chance, to differentiate themselves from the competition. Maximum retail prices are fixed and printed on products and therefore prices of the branded produces are uniform through the country. private Label or stores own Label brands offer a very large margin to retailers thereby allowing them to offer discount. Apparel and non food segment sold through stores give 25-30% of margin some retailers like pantaloon and weekender have their own manufacturing facility for part of the merchandise the extra margin so generated contribute towards competitive pricing and its benefit passed on to the consumer. Advanced IT tools have contribute towards better logistics and inventory management at lower operational cost. Value additions are provided through measures like privileged customer cards and promotion in the form of direct discount have increased the value to the customers. Organized retailers usually have long term contacts with vendors whereby they are ensured a continuous supply of merchandise of the desired quality at the most competitive price.