CHAPTER -6
PROBLEMS OF ORGANIZED RETAILING IN INDIA:

1. Government restriction of FDI.
2. Lack of uniform taxation
3. Lack of adequate infrastructure
4. Lack of efficient operations
5. Competition from unorganized sector
6. Lack of Trained workforce
7. Changing consumer taste and preferences.

Organized retailing industry is clocking impressive growth in India but there are some potential road blocks which can sour the high growth retail picture. These obstacles are nothing but the challenges faced by the Indian organized retailing. Regulatory and structural issues which are yet to be resolved including industry status to be given to retailing. This recognition would ease financing prospects as well as standardize and unify taxes for the industry. The sector lacks growth because of several factors like.
1. Lack of industry status

2. Highest cost of intermediaries in the world (for every 1 rupee a consumer spends, the farmer gets 20-22 paisa).

3. High cost of land and poor infrastructure services as bottlenecks.

Retailing continues to be one of the least evolved industries and growth of organized retailing in India has been much slower as compared to the rest of the world. The high real estate cost and non-availability of the right property has been the major barrier behind the slow growth with most of the Indian cities are not capable of supporting the massive growth plans of retailers.

1. **GOVERNMENT RESTRICTION OF FDI:**

Organized retailing in India is yet to get an industry status. The consequence is quite obvious, 100%. Foreign Direct Investment in not permitted in retailing in India, ownership of retail chains is allowed only to the extent of 49%. The Indian government does not encourage any foreign direct investment in retail industry. FDI is normally one of the way of getting technical input and because of this dearth of FDI in this sector, development in terms of people, skill etc is happening the hard way. Retailing is now technology intensive industry under the liberalized regime of WTO. The protected nature of an industry
may do more harm. In the short run the government may succeed in protecting the domestic industry but in the long run India is loosing too many opportunities and technological innovations.

2. **LACK OF UNIFORM TAXATION:**

The country requires a uniform tax system for the organized retailing the lack of this as an obstruction to the setting up a truly national chain. The present chains in spite of claiming to be national chains are restricted to certain regions of the country. Organized retailers are confined to state barrier, since retailing essentially a business of supplying commodities to locations far from production units a differentiate tax system in different state is surely turning to be a hindrance to faster development of this industry. A central tax system becomes more imperative in a country like India where the regional disparity in production of commodity is high. India still does not have retail friendly law specially relating to the movement of goods from one state to another. There are laws like shops cannot be open for all seven days, shops have to be open after or close before a certain time which affects operations.

3. **LACK OF ADEQUATE INFRASTRUCTURE:**

To establish a retail shop / mall / the real estate and the infrastructure are very vital, the expenditure and availability on
both accounts do hinder the growth of the retail chain. The lack of infrastructure also affects the logistics and supply chain management for retail companies. Major retailers are planning to increase the number of stores and the retail space to shape it up as organized retailing. This is a known fact that the real estate or the space available as attractive location has a high price, most of the Indian cities are choking under rapid urbanization and are not capable of supporting the massive growth plans of retailers. The average purchasing power of Indian is quite low in comparison to the rest of the world. Unless the real estate cost becomes conductive to retail growth most retail business will take a longer time for break even. Entrepreneurs invest infrastructure development for different stages of supply chains are also limited.

4. **LACK OF EFFICIENT OPERATIONS:**

Retailers in India are on the verge of significantly scaling up their operations. One component of efficient operation is inventory turnover ratio, most Indian retailers have inventory turnover levels between 4 to 10 times in comparison to 50 times in global scenario. Another essential component of efficient supply chain management is availability of stock in the shelves. A consumer asking for a specific product in terms of size, shape, Colour, model quality, quantity if not found available with the retailer, results in a stock out situation in developed countries.
Retailers practice vendor management inventory system (VMIS) where the supplier has an access to the point of sales data of the retailers, this helps the suppliers to plan automatic replenishments corresponding to the stocks available with the retailers, this requires a sound integration with information technology and this is a challenge in front of the Indian organized retail trade. Technology usage is very low in Indian organized retail compared to the levels achieved in advanced economies. Retailers like Walmart and Metro have started using Radio frequency identification (RFID) technology whereas majority of retailers in India are still depending on bar coding. The usage of bar codes is high in India as the retailers print these codes in their warehouses unlike the advanced international retailers where the bar codes are provided by the suppliers. IT facilities are yet to implement efficient supply chain management techniques to avoid stock of situation and improve the operations.

5. **COMPETITION FROM THE UNORGANIZED SECTOR:**

The unorganized sector has dominance over the organized sector in India especially because of the low investment needs. Traditional retailing has established in India for some centuries, in the form of Kirana Stores or family owned business. It is a low cost structure, mostly owner operated, very reasonable real estate and labour costs, little or no taxes to pay, CRM in term of
consumer familiarity that runs from generation to generation is one of the biggest advantages for the traditional retailing format. On the other hand organized sector has huge expenses to meet with increases the price of goods and service. Higher labour costs, taxes, social security to employees high real estate rate, a bigger infrastructure lift and escalators are the key drivers leading to higher prices in organized retailing moreover it is key difficult to cope with the psychology of the consumer that the bigger stores are more expensive than the small traditional stores. The number of retail outlets in India is more then the number of outlets in most of the other countries, small size retail outlets dominate the Indian scene. India with second largest population in the world as a fast growing economy has huge untapped potential of organized retailing which is not given its due weight age by the government.

6. **LACK OF TRAINED WORKFORCE:**

Availability of trained personnel and retaining the human resource is a major challenge for big retailers. Retail sector can generate huge employment opportunities and can lead to job led economic growth, employment in organized retailing is still very low because of small share of organized retail business in the total Indian retail trade. There is no shortfall of manpower in India but gap lies in finding people with right skill sets. Man power requirement is for both the in store and non store
operations. The gap in managerial cadre is little less as the managers are able to quickly learn and adopt to the demands of the retailing environment but there is significant competency gap in managing supply chain, customer relation, merchandising and vendor development. There is very low training facility for the retail service sector. Very few retailers have their own retail schools in India like RPG Institute of Retail management. Some retailers are trying up with leading management institute to develop specific training programs for example. Pantaloon has tied up with K.J. Somariah Institute of management to offer specialized course in retail management. But majority of retailers depends on in house training programs for the upliftment and development of their employees. Retail sector is competing with other high growth industries like telecom, insurance BPO's where similar skill set is required. A recent survey by FICCI (Federation of Indian chambers of commerce and Industry) points out that about 70 million Sq. Ft. of retail space will be created by the end of 2007 and industry would need 21,000 more sales professionals. The survey shows that more than half of the industry respondent thought there would be gaps across the board in supply chain management, branding, Marketing and sales promotion. Indian retailers have to adopt creating Human resources practices to acquire attained, retain the available workforce.
7. **CHANGING CONSUMER TASTES AND PREFERENCES**

This era of globalization, consumerisms and liberalization is giving a new shape to consumers tastes and preferences. Today the consumer is smart, well aware, technology savvy and with this change 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 type of buyer the level of stock keeping units (SKU’s) have to be increased which again involves various complexities like procurement of products, planning merchandise changing displays and visual merchandise, managing huge inventories. Globalization has a deep impact on Indian consumers. With the international exposure the shopping list and shopping styles have drastically changed. Indian organized retailers have to answer, to these changes in term of cost, availability of space and integration of the whole retail system.

Organized retail is sure to fulfill its potential in the India. The unfulfilled demand of the Indian consumers for quality products at the right price and environment with the perfect service and ambiance will full the growth of Indian retail industry. An alignment of retail sector with other sector of the economy, promote India as a global shopping hub. There are regulatory and structural issues which need to be resolved change in the governmental stance would be required for realizing the full potential of this vibrant sector, Accordance of Industry status would ease financing prospects for organized retailing.