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1. RETAILING SCENARIO IN INDIA

1.1 INTRODUCTION

The concept of retailing draws strength from the French word ‘retailer’, which means ‘to cut a piece off’. Invariably, this term is defined and interpreted in many ways, however, the most acceptable approach and to explain precisely by many ‘as the business activity of selling goods or services to the final consumers’¹. The retail activity is also defined as: “any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution”². The bottom line of this definition links the activity of selling and satisfying to final consumer leaving the intermediaries involved in the selling process.

Organized retailing has emerged in a big way since in the year 2000 onwards and with it, the business has witnessed the emergence of new forms of retailing. The important reason for growth in the consumer demand for retail outlets could be that there is a growing middle class of consumers with high disposable income, rise in consumer aspiration for global life style due to media exposure³. Indian retailing industry has shown a phenomenal growth in the last few years.

While another definition to Retailing states that, “as all activities in selling goods or services directly to final customer for their personal, non-business use via shops, markets, door to door selling,
mail order or over the internet, where the buyer intends to consume the product through personal, family or household dues.”

Retailing has occupied a prominent place in the modern society. The retailing encompasses the business activities that involve in selling of goods & services to the consumers as final distribution process. Retailing is not only an important aspect of the economic structure but also very much a part of today’s life. Ultimately this has lead to the development of complex retail environment.

Retailing in India is currently estimated to be a USD 200 billion industry, of which organized retailing makes up 3 percent or USD 6.4 billion. By 2014, organized retail is projected to reach USD 36 billion and in terms of market share it is expected to rise by 20 to 25 per cent. India’s fortune 500 private sector giant, Reliance Industries Ltd, has in fact, been first of the blocks by launching its first Reliance Fresh outlets in Hyderabad in November 2006 and has since fanned out to all over India. By the end of 2007, it extends its retail footprints to 80 cities. India’s much awaited retail revolution has, therefore, already been set in motion.

Only 2-3 per cent of retailers are large-scale who have the ambition of bringing organized retailing to the whole of India. This segment comprises the likes of the Future Groups headed by Kishore Biyani, the country’s largest retailer having 302 million square feet of retail space across 36 cities. He intends to spend US$ 1 billion to increase that to 10 million sq ft by 2014. For a sense of perspective,
only 4% of the 15 million retail outlets have floor space in excess of 500 sq ft. but considering the vast potential, this sector naturally has attracted majors like Reliance, Tata, Adhitya Birla Group, Godrej, Mahindra’s, ITC. etc.\textsuperscript{7}

According to India Brand Equity Foundation (IBEF) reports, there are 200 malls spread all over India and 700 new malls are coming up, 40% of which are concentrated in the smaller cities and towns. The reasons are not far to seek. The contribution of smaller cities to organized retail sales was 15% in 2005 and has risen to an estimated 25 per cent in 2006.\textsuperscript{8} With growth of 50-60 per cent every year when compared to 35-40 per cent in the larger cities, the smaller cities are the torchbearers of the retail revolution.

The retail revolution that is underway has all these potentialities, including delivering health, micro-credit, education and entertainment to the bottom of the pyramid. While India thus is becoming one of the largest retail markets in the world, the transition to a more organized form, however, is not easy and will remain politically contentious. For all the fears of the demise of the so-called mom and pop retail stores, the point to remember is that “now here in the world has small retailing disappeared. But, nowhere in the world has modern retailing not come in”.

India is a land of retail democracy- hundreds and thousands of weekly malls and bazaars are located across the length and breadth of our country by people’s own self-organizational capacities. Our streets
bazaars – lively, vibrant, safe and the source of livelihood for millions. India has the highest shop density in the world; with 14 outlets per 1000 people. This does not include the village haats.

India’s retail democracy is characterized by,

1. High levels of livelihoods in retail with nearby 40 million employed which account for 8% of the employment and 4% of the entire population.
2. High levels of self-organizations.
3. Low capital input.
4. High levels of decentralization.

Retail in India has started with the concept of weekly markets, where all traders gather at one big place to sell their products every week. The people come to these weekly markets to buy the household items for the next one week. Village fairs and meals were also common as it had more entertainment value. Once the people started getting busy with their lives and when they turned entrepreneurial, there emerged the mom and pop shops and kirana shops in the neighborhood. After independence, came into existence the system of public distribution of food products through the ration shops, where food grains, sugar and oil are sold through the government ration shops. The modern corporate retail formats are of the exclusive brand outlets, hypermarkets, supermarkets, departmental stores and shopping malls. But still the Indian consumer depends on the self-organized retail shops for their daily needs.
This is largely due to the excellent food retailing system that was established by the kirana stores that continue to meet with all the requirements of retail requirements albeit without the convenience of the shopping as provided by the retail chains. The hawkers, vendors and the local kiranas are the two main forms of unorganized retail in the country, which almost account for 97% of the total retail trade.

The cut throat competition and aggressive global expansion are the driving forces in the food retail sector which will mean the displacement of small retailers and farmers. The corporate retail will have direct impact on tiny retailers, hawkers and shopkeepers. Study has shown that nearly 90% small retailers have been negatively impacted within a few months of a corporate retailers coming up in their neighborhood and 87% said corporate retailers have taken away their business. 66% small vendors said that they would have to close their shops because of declining business. Corporate retail is clearly growing at the cost of small retail. Food retail in India has clearly become an important part of global trade wars. But this is about more than trade. For the people of India, it is about culture and ecology, about employment and food security.

With this growth of the corporate retailing industry in the growing Indian economy is posing stiff competition to the existing small and medium retailing sector. Though there are other problems associated with the growing organized industry, the problem mentioned has direct impact on the society, culture and economy. Hence, a careful
analytical study and the solutions are required to overcome these problems.

1.1.1 Segments of retailing

The following are the two segments of retailing:

Organized retailing: Any retail outlet (not a one shop outlet) which is professionally managed (even if it is family run), has accounting transparency (with proper usage of management Information System and accounting standards) and organized supply chain management with centralized quality control checks for both inbound and outbound material movement, and sourcing (certain part of the sourcing can be locally made and some are of foreign origin) and offering value to the customer money by offering the best possible product and it can be termed as organized retailing.

Unorganized Retailing: Any retail outlet which is run locally by the owner or the caretaker of the shop. Such outlets lack technical and accounting standardization. The supply chain and the sourcing are also done locally to meet the local needs.

In order to understand the growing importance of the organized retail activities, data on some selected US Asian countries, including India is providing hereunder
Table: 1.1 Percentage of Organized and Unorganized retail across the world (in %)

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>Taiwan</th>
<th>Malaysia</th>
<th>Thailand</th>
<th>Indonesia</th>
<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unorganized</td>
<td>15</td>
<td>19</td>
<td>45</td>
<td>60</td>
<td>70</td>
<td>80</td>
<td>97</td>
</tr>
<tr>
<td>Organized</td>
<td>85</td>
<td>81</td>
<td>55</td>
<td>40</td>
<td>30</td>
<td>20</td>
<td>3</td>
</tr>
</tbody>
</table>

*Source: Naukrihub.com. 2012*

It can be understood from the above table 1.1 that Indian markets are yet to take off and become mature, as compared to many advanced countries. The penetration of organized retailing in India is barely 3 percent. It is evident from the above table 1.1 the organized retailing is yet to take its place in the Indian markets. While in other markets it is widely prevalent, and of late it is gaining prominence.

### 1.2 HISTORY OF RETAILING

In the ancient world, trade flourished simply because some has a surplus of one goods and desired the goods they did not have or could not produce. The earliest traders were Cretans who sailed the Mediterranean and carried on trade with the people of that area. They flourished for 2,000 years, and their culture influenced other great trading civilizations 11.

By the 12th century artisans and tradesmen began to organize into “guilds” and opened up small shops. They helped them gain social and economic advantages.

By the 13th century fairs and markets flourished. Early fairs often had a religious foundation. On feast days, people would gather
at their churches and exchange goods. Larger markets were also called fairs and people travelled long distances to participate. These fairs eventually became amusement and exist in an entertainment form today.

With the improved manufacturing methods and extended road and rail transport system, the specialist manufacturers need specified retail store to sell the goods. Over time, the small retail store concept grew, and by the mid 1950’s small stores blanketed every high street.

While most people loved the individual attention and great services that the small store provided, it became more and more difficult for the small store to offer the kind of prices and selection that the consumer really needed, not to mention that they probably had to travel all over the town to get their shopping done.

The next big revolution in retailing was the emergence of the retail chains and later the superstores. The consumers of the 70’s demanded the convenience of having their favorite stores in one enclosed location where they could easily hop from store to store without having to concern them about the weather. This shopping mall concept was quickly embraced by the consumer, but unfortunately the crowds and traffic of today’s mega malls can often turn what should have been a convenient and comfortable shopping experience into a mission of hand to hand combat.
In recent years, the mail order business has experienced some of the most impressive growth, which would also seem to echo the continuing consumer demand for convenience\textsuperscript{15}. Most retailers are recognizing that they simply have to offer their customers the ability to order products or services from the comfort of their own home or office in order to compete in today’s retail marketplace \textsuperscript{16}.

1.3 PRINCIPLES OF RETAILING

A retailing outlet is a place which has a sincere long term desire to please customers. In doing so it uses a customer centered, chain wide approach to strategy development and implementation; it is value driven and it has clear goals. Together these four principles form the retailing concept, which should be understood and applied by the retailer.

The four principles of retailing concept are, \textsuperscript{17}

a. **Consumer orientation** – The retailer determines the attributes and the needs of its customers and endeavors to satisfy these needs to be fullest.

b. **Coordination effect** – the retailer integrates all plans and activities to maximize efficiency.

c. **Driven value** - The retailer offers good value to the customers, means the price of the commodities are appropriate for the product and services.

d. **Goal orientation** – The retailer sets goal and then uses its strategy to attain them.
The retailing concept is fairly easy to adopt. It means communicating with shoppers viewing their desire as a critical to the firm’s success, having a consistent strategy, fair price offering to the customers and working to achieve the meaningful, specific and reachable goals.

Retailers, like other business, needs to make profit to stay in the business. The retailer must plan the development activities to ensure continuous success. The success in retailing depends upon many activities. The successful retailing establishes its markets position to serve the needs of a well defined group or groups of consumers\textsuperscript{18}.

1.4 RETAIL FORMATS

The retail business operates in a dynamic environment. The changing customer demands, opening up of markets, technological developments and ever increasing competition, all affect the retail business. New retail formats are constantly evolving.

In modern retailing, a key strategic choice is the format. Innovations or formats may at times, be able to provide a competitive edge to retailers. Until 1940’s, the American retail was primarily centered around the city high street, or downtown areas, with an array of interdependent stores, such as departmental stores, drug stores and coffee shops\textsuperscript{19}. 
1.4.1 Evolution of Retail formats

The origins of retail are as old as trade itself. Barter was the oldest form of trade. For centuries, most merchandise was sold in market places or by peddlers. Medieval markets were dependent on local sources for supplies of perishable foods because journeys were far too slow to allow for long distance transportation. However, customers did travel considerable distance for special items.

The Indian retail sector came with evolutionary patterns from Kirana store to Super market. This sector was un-organized in the initial stage, and then it moved through the franchise model. As with the change in the regulation it transformed in pure retail market. So, we can say that retail come from evolution rather than a revolution.

**Table 1.2 Major Formats of In-Store Retailing**

<table>
<thead>
<tr>
<th>Format</th>
<th>Description</th>
<th>The Value Proposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branded Stores</td>
<td>Exclusive showrooms either owned or franchised out by a manufacturer.</td>
<td>Complete range available for a given brand, certified product quality</td>
</tr>
<tr>
<td>Specialty Stores</td>
<td>Focus on a specific consumer need, carry most of the brands available</td>
<td>Greater choice to the consumer, comparison between brands is possible</td>
</tr>
<tr>
<td>Department Stores</td>
<td>Large stores having a wide variety of products, organized into different departments such as clothing, house wares, furniture, appliances, toys, etc.</td>
<td>One stop shop catering to varied/ consumer needs.</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>Extremely large self-service retail outlets</td>
<td>One stop shop catering to varied consumer needs</td>
</tr>
<tr>
<td>Discount Stores</td>
<td>Stores offering discounts on the retail price through selling high volumes and reaping economies of</td>
<td>Low Prices</td>
</tr>
<tr>
<td><strong>Hyper-mart</strong></td>
<td>Larger than a supermarket, sometimes with a warehouse appearance, generally located in quieter parts of the city</td>
<td>Low prices, vast choice available including services such as cafeterias.</td>
</tr>
<tr>
<td><strong>Convenience stores</strong></td>
<td>Small self-service formats located in crowded urban areas.</td>
<td>Convenient location and extended operating hours.</td>
</tr>
<tr>
<td><strong>Shopping Malls</strong></td>
<td>An enclosure having different formats of in-store retailers, all under one roof.</td>
<td>Variety of shops available to each other.</td>
</tr>
<tr>
<td><strong>Category Killers</strong></td>
<td>Large specialty retailers focusing on a particular segment. These retailers are able to provide a wide range of choice to consumers.</td>
<td>Usually at affordable prices, due to scale economies.</td>
</tr>
</tbody>
</table>

Source: [http://www.indiainbusiness.nic.in/industryinfrastructure/servicesector/retailing3.htm](http://www.indiainbusiness.nic.in/industryinfrastructure/servicesector/retailing3.htm)

### 1.5 RETAILING – CUSTOMER VALUE AND SERVICES

The existence of the customers is the integral part to the existence of the retailer. The ability to understand customers is the key to develop successful retailing strategy. To satisfy the customers, it is necessary to understand them, their need and how they respond to the various marketing efforts undertaken by the retail organization. As competition increases and the customers become more and more knowledgeable and demanding, the earlier needs this knowledge to stay ahead of their competitors and build a competitive advantage.

The first step in understanding customers is identifying the customers for the product or service, i.e., the target segment, the demographics of this segment, their needs and their buying behavior.
1.5.1 **Factors influencing the retail customer in decision making**

Understanding the reasons behind the consumers in choosing or patronizing a store over others is important for the retailer. This is true for the retailer across the world. The factors that influence the customer behavior are as shown in figure

![Factors Influencing the Customer's decision making process](image)

*Fig:1.1 Factors Influencing the Customer’s decision making process*


**Range of merchandise**

The range of merchandise is perhaps the most important reason for the customers to patronize a particular outlet. The initial curiosity of a new store may draw a customer to the particular retail store, but to convert him into a buyer and to retain him over a period of time, is
largely dependent on the quality and the range of merchandise is, if it is similar to that of another store, the customer may not see any reason for switching store. The range of the merchandise offered plays an important role in the case of categories like durables, books, music, apparel and the life style products.

**Convenience Shopping**

The element of convenience is fast gaining prominence in the world of organized retail outlet. This is especially true in the case of items like grocery, fruits, medicine apparel etc.,

**Time to travel**

The time required to reach a particular retail location is again, fast becoming critical. This is especially true in big cities and urban areas where the travelling time is high. Keeping this in mind many retailers have opened their outlets in the local areas.

**Socio-economic background and culture**

The Socio-Economic back ground of the customer largely determines their life styles. This influences the kind of store that they feel comfortable for shopping. The customers’ buying behavior varies from market to market and is largely influenced by the culture of the region. The need hierarchy is different for each market. The needs the retailer can fulfill are to be clearly understood by the retailer.
**The stage of the Family life cycle**

The stage of the family life cycle that the customer belongs to, also largely influences the needs of the customers. The retailer needs to be clear about the target market that is linked with the stages of life cycle of the society.

**1.5.2 The customer decision making process**

After knowing the factors that influence the decision making of the customer, it is necessary for the retailer to understand the manner in which the customer makes a decision. This requires the understanding of the consumer behavior.

![Customer Decision Making Process Diagram](source)

**Fig: 1.2. The customer Decision making process**


The need of the product or service starts when the need of the particular product or services arises. A need may be psychological or functional. Psychological needs are associated with the personal gratification that the consumer may get from purchasing or owning a
particular product. A functional need is directly related to the function of the product.

The next stage is how the consumer gets the information about the products and the place where he can make the purchase. The source of information may be through media, family friends, and internet. Any earlier experience of buying product and services would also affect the decision to purchase.

Depending on the criteria important to the customer, the customer will evaluate the various options available and narrows down the choices to a few stores, where the consumer makes the purchase. The customer may visit couple of stores before making a decision to buy.

Retailer can provide information to the customer at various stages of the process. Regular advertisements in the different media can create awareness about a particular product and may also create desire to buy the product. A friendly and knowledgeable sales staff can assist the customer in gathering information about the product. Services offered by the retailer like, acceptance of the credit cards, free home delivery, the convenience in shopping will affect the customers buying decision.

The experience during the shopping and after it, will lead to satisfaction or dissatisfaction with that retail store. The customer assimilates the experience that he had during the shopping as well as his experience post purchase. The customer is also influenced by the
opinions and the experiences that friends and the family have had with the store. Over a period of time all these factors lead to a customer patronizing a particular store. The retailer need to understand this process adopted in the buying process so that they can develop loyalty over a period of time.

1.6 FUTURE SCENARIO IN RETAILING

The emergence of organized retail has been a recent phenomenon in the country, starting in the late 1990s. Its growth till 2006-07 was reasonably fast, at nearly 20 percent per annum during the past three years. Unorganized retail also grew but at a slower pace of nearly 11 per cent per annum. There are signs that the growth of organized retail has accelerated in 2007-08 and is expected to gather further momentum during the coming years.

1.6.1 Growth of Retail and its Distribution

The National Council for Applied Economic Research (NCAER), based on its Market Information Survey of Households (MISH), has projected that the consuming class consisting of the ‘aspirers’, the middle class and the rich with annual household income of above Rs. 90,000 has raised from about 336 million in 2005-06 to 505 million in 2009-10. This implies a huge growth potential of retail in the country. The sales of the Indian retail industry have been about US$ 424 billion (Rs. 14,574 billion) in 2010, amounting to about 10.6 per cent of compound annual growth rate (CAGR). It is the seventh largest retail market in the world. Indian retail industry is projected to grow
to about US$ 518 billion by 2012 and further to over US$ 869 by 2015 is estimated.

![Graph of Indian Retail Size (in US$ bn)](image)

*Source: India Retail Report 2013.*

**Fig 1.3 Size of Indian Retail (in US$ bn)**

This works out to an annual compound growth rate of about 13% during 2007-12 and a slower 11 per cent during 2012-17.

In India, organized retail contributed roughly 4 per cent of the total Indian retail in 2006-07, which is very small even compared with most of the emerging market economies. However, during the coming years, it is projected to grow at a compound rate of about 45-50 per cent per annum and is estimated to contribute 16 per cent to the total Indian retail by 2011-12.
Interestingly, this huge growth in organized retail does not involve a decline in the business of unorganized retail; the sales of the unorganized sector is envisaged to grow by about 10 per cent per annum, from US$ 308.8 billion in 2006-07 to US$ 495.6 billion in 2011-12.

1.6.2 Organized Retail Investment

Until a couple of years ago, the Indian organized retail market was either dominated by the apparel brands or regional retail chains. However, the scenario has changed dramatically. The sector has attracted not only the large Indian corporate but also received the attention of large global players.

As per Technopak Advisers Pvt. Ltd. estimates, investments amounting to approximately US$ 35 billion are being planned for the next five years or so (Table 1.4). Of this, about 70 per cent is expected to come from top seven players including Reliance Industries, Aditya Birla Group, Bharti-Wal-Mart, Future Group and others. Also, it is
estimated that about 40 per cent of the total investments will be contributed by foreign players including Wal-Mart, Metro, Auchan, Tesco and many others, signifying the importance that the international community is attaching to the Indian retail opportunity.

In short, India is attempting to do in 10 years what took 25-30 years in other major markets in the world and shall bypass many stages of “evolution” of modern retail. India is likely to see the emergence of several “innovative” India-specific retail business models and retail formats during the coming years.

Table 1.3 Investment Plans of Major Retailers in India in the Next 5-7 Years

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Estimated Investment (US$ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>6.0+</td>
</tr>
<tr>
<td>R2</td>
<td>4.0+</td>
</tr>
<tr>
<td>R3</td>
<td>2.5+</td>
</tr>
<tr>
<td>R4</td>
<td>2.0+</td>
</tr>
<tr>
<td>R5</td>
<td>2.0+</td>
</tr>
<tr>
<td>R6</td>
<td>2.0+</td>
</tr>
<tr>
<td>R7</td>
<td>2.0+</td>
</tr>
<tr>
<td>R8</td>
<td>1.5+</td>
</tr>
<tr>
<td>R9-R50</td>
<td>13.0+</td>
</tr>
<tr>
<td>Total</td>
<td>35+</td>
</tr>
</tbody>
</table>

Note: Retailers’ identities are not revealed for maintaining anonymity.
Source: Technopak Analysis

1.6.3 Retail Space Break-up by Category

The total new retail space required to facilitate the proposed investment will be around 487 million sq. ft. across all retail formats. Technopak Advisers Pvt. Ltd. estimate that 50 per cent of the space would need to be catered by the shopping malls and rest by stand-alone locations in formats like supermarkets. Technopak Advisers Pvt.
LTD. also estimate that with 143 million sq. ft. of mall space being planned over the next five years, it still leaves the retail industry with a shortage of more than 40 per cent in mall space. Most of the large format retailers will find it difficult in getting adequate real estate and it is expected that they may end up creating space for retail on their own. The required retail space for organized retail is expected to be around 7-8 times the current space available for organized retail. Hypermarkets and supermarkets will take approximately 62 per cent of the retail space. About 51 per cent of new retail space is expected to come up in A-class and above type cities which are already crowded.

![Fig: 1.5 Retail Space Estimates by Format (%)](image)

![Fig: 1.6 Retail Space Estimates by City Type (%)](image)

*Source: Technopak Analysis, 2013*

### 1.6.4 Employment Growth

As per the industry estimates of employment of one person per 350-400 sq. ft. of retail space, about 1.5 million jobs will be created in
the front-end alone in the next five years. Assuming that 10 per cent extra people are required for the back-end, the direct employment generated by the organized retail sector in India over the coming five years will be close to 1.7 million jobs. This constitutes nearly 5 per cent of the existing employment of about 37 million in the retail industry. Indirect employment generated on the supply chain to feed this retail business will add further to this already high number. While a boon for the Indian economy in terms of the employment generation, at the same time it is a significant challenge for the organized retail industry to gain access to such a high number of trained manpower in such a short period of time.

Table 1.5 Employment generations by organized retail during 2007-12

<table>
<thead>
<tr>
<th></th>
<th>Hyper Market</th>
<th>Super Market</th>
<th>Cash &amp; Carry</th>
<th>Specialty &amp; Department Store</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>New retail space (Million sq.ft)</td>
<td>218</td>
<td>86</td>
<td>76</td>
<td>107</td>
<td>487</td>
</tr>
<tr>
<td>Retail space per floor staff (sq.ft)</td>
<td>350</td>
<td>200</td>
<td>450</td>
<td>350</td>
<td>---</td>
</tr>
<tr>
<td>No. of front end staff ('000)</td>
<td>623</td>
<td>430</td>
<td>169</td>
<td>306</td>
<td>1527</td>
</tr>
<tr>
<td>No. of back end staff ('000)</td>
<td>62</td>
<td>43</td>
<td>17</td>
<td>31</td>
<td>153</td>
</tr>
<tr>
<td>Total manpower ('000)</td>
<td>685</td>
<td>473</td>
<td>186</td>
<td>336</td>
<td>1680</td>
</tr>
</tbody>
</table>

Source: Technopak Analysis and Industry Estimates 2012

1.6.5 New organized retail stores

Given the expected investments and future projections of growth of retail area, there will be a huge increase in the number of stores in
the next five years. It is estimated that around 44,500 new stores of different formats will open.

Table 1.6 Number of new organized retail stores during 2007-12

<table>
<thead>
<tr>
<th></th>
<th>Hyper Market</th>
<th>Super Market</th>
<th>Cash &amp; Carry</th>
<th>Department Store</th>
<th>Specialty store</th>
</tr>
</thead>
<tbody>
<tr>
<td>New retail space</td>
<td>218</td>
<td>86</td>
<td>76</td>
<td>32</td>
<td>75</td>
</tr>
<tr>
<td>(Million sq.ft)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average store (sq.ft)</td>
<td>80,000</td>
<td>4,000</td>
<td>1,50,000</td>
<td>40,000</td>
<td>4,000</td>
</tr>
<tr>
<td>No. of stores</td>
<td>2,725</td>
<td>21,500</td>
<td>507</td>
<td>803</td>
<td>18,725</td>
</tr>
</tbody>
</table>


1.7 KEY RETAIL PLAYERS FROM INDIA

a. Pantaloon retail (India)
b. Shopper’s stop
c. Life style
d. Reliance retail
e. Aditya birla retail
f. Bharthi retail

1.8 TECHNOLOGY IN ORGANIZED RETAIL INDUSTRY

Over the years as the consumer demand increased and the retailers geared up to meet this increase, technology evolved rapidly to support this growth. The hardware and software tools that have now become almost essential for retailing can be divided into 3 broad categories

a. Customer interfacing systems
b. Operation support systems
c. Strategic decision support systems
1.9 PROBLEMS OF INDIAN RETAILERS

India has been called as a nation of ‘dukaandars’ (Shop Keepers) due to the huge number of its retail enterprises, which totaled over 25 million in the year 2014. About 78 per cent of these are small family business utilizing only house hold labor, bulk of them too using less than three workers.

Retailing in India is thoroughly unorganized. There is no supply chain management perspective. According to a survey an over helming portion of the Rs.400,000 crore retail market is unorganized. About 96 per cent of the five million-plus outlets are smaller than 500 square feet in area. This means that India per capita retailing is about 2 square feet, currently this is the lowest in the world.

A tremendous opportunity exists in the Indian market and organized retail will have prevailed as other parts of the world. Since it is only matter of time, this will be right time to invest and reap profit in around 5-7 years21.

Organized retail is transforming the neighborhood grocery store (Commonly known as kirana stores) the actualization of the buying power is in the hands of consumer.

Modern retailing in India has been characterized by the shift from traditional channel to new retailing formats such as, super markets, departmental stores, hyper markets, convenience stores and specialty stores also modern retailing formats with sprawling shopping
centers, multi storied malls offering shopping, entertainment and food under one big comfortable roof have mushroomed in metros and mini metros. In last few years, modern retail has also established its presence in the second rung cities thus exposing the residents of these cities to shopping option like they have never experienced before. It has been forecasted that the share of retail will increase to 15-20 per cent from existing 2 per cent organized retailing.

Retailing in India is in the process of getting more organized and professional. Large retail formats—hypermarkets, warehouse clubs, and discount superstores—are set to take over the retail scene. Medium-scale retail formats such as department stores and supermarket chains have already made an appearance and are slowly changing the face of retailing in the country.

The urban Indian retail sector has traditionally been structures around three small retail entities—the grocer, the general store and the chemist\textsuperscript{22}. The grocer stocks non-packaged, unbranded commodities such as rice, flour and pulses, as well as branded fast-moving consumer goods; the general store stocks only branded, packaged FMCGs. The chemist, apart from dispense pharmaceutical products and health foods. Alongside the three retail outfits, exists a large segment of smaller, unorganized players pan beeda stores (or cigarette kiosks) which stock products in sachets, batteries, confectionery and soaps; bakeries and confectioners; fruit juice/tea stalls; ice-cream parlors; electrical and hardware stores; and non-food
boutiques. These retail outfits stock branded FMCGs that sell with their businesses. These apart, there are hawkers, carts and stalls that sidewalks and street corners, and several door-to-door sellers such as vegetable vendors.

The small and medium retailer will be around also because, by their very nature, they will be able to deal with several peculiarities in the Indian consumer psyche. For example, the small retailer benefits from certain myths among middle-class customers, the largest audience of supermarket operators. One such myth is that ‘whatever is modern is expensive’. This keeps away several potential middle-class shoppers from buying at supermarkets. Another myth is that fresh foods that are pre-packaged may not really be fresh (in the case of fruits and vegetables). Here, neighborhood vendors have an edge since they replenish their stock on a daily basis and most of them offer the products at the doorstep.

Supermarkets are yet to get The Great Indian Middle Class and Rural India in their fold. That may take a very long time to happen because it is extremely difficult to break cultural and demographic barriers. Until then, small retailers will be the most-sought-after retail entities, especially by those marketers who are keenly looking at penetrating semi-urban and rural areas.

1.9.1 Problems of organized retailing in India at a glance

The retail businesses in India are subject to many forces, many of them outside their control. The list below illustrates the complexity
of these problems. A good revitalization program should be based on a thorough understanding of these problems and include strategies to minimize their impact.

- High rents squeeze out small businesses.
- Market inadequate to support businesses.
- Inadequate or poorly managed parking.
- Inadequate capital to start new businesses.
- Inadequate capital to expand existing business.
- Inadequate capital to provide needed public improvements.
- Negative image of area.
- Local government regulations inappropriate.
- Poor designing of infrastructure.
- Poor marketing of commercial district.
- Poor merchandising sold.
- Poor inventory control.
- Little understanding of market by existing businesses.
- Poor mix of retail businesses in the area.
- Inadequate organizational structure for small businesses to work together.
- Inadequate numbers of skilled employees available to work in organized retail outlet.
- Inadequate facilities or services to retain employees.
1.10 FOREIGN DIRECT INVESTMENT IN INDIAN ORGANIZED RETAILING

“Investment into the business of a host country by a company in foreign country”. Mostly the investment is into production or manufacturing by either buying or selling a company in the target country or by expanding operations of an existing business in particular country”. Such investments can take place for many issues, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country. FDI is investment of foreign assets into domestic country, equipment, operations and organizations. FDI does not include foreign investment into the stock markets. FDI has boosted the economic life of India and on the other hand there are critics who have blamed the government for ousting the domestic inflows.

Foreign Direct Investments helps by boosting in development of the economy by generating employment to the unemployed, generating revenues in the form of taxes and incomes, financial stability to the government, development of infrastructure, backward and forward linkages to the host country firms for the requirements of raw materials, tools, business infrastructure, skilled employees and act as support for financial system.

FDI has played a vital role in the process of globalization during the past two decades. The rapid expansion of FDI by multinational enterprises (MNEs) since the mid-eighties may be assign to significant
changes in technologies, liberalization of trade and investment
regimes, and deregulation and privatization of markets in many
countries including developing countries like India.

The growth of FDI gives opportunities to Indian industry for
technological improvements, gaining access to global managerial skills
and practices, optimizing usage of human and natural resources and
competing internationally with higher efficiency.

In generally speaking, FDI refers to capital inflows from foreign
that invest in the production capacity of the economy and are “usually
preferred over other forms of external finance because they are non-
debt creating, non-volatile and their returns depend on the
performance of the projects and operations financed by the investors.
FDI also facilitates international trade and transfer of knowledge,
skills, and technology.”

1.10.1 Present FDI policy in India

The total amount of Foreign Direct Investment inflows in India
from April 2000 to January 2012 amounts to 204.07 crores US$ 44.45 million, with a % of 0.03 with respect to total FDI inflows. The
Indian government is much aware that customers of India are
becoming brand-conscious, there is a huge market, increasing the
consumerism, and developing the disposable income that is available
for saving. All these factors can give an impetus to this organized
retail sector and can help in procuring stabilized high disposable
economic growth. It also wants to develop India as an outsourcing axis (hub) for foreign retailers. Supporters of Foreign Direct Investment in retail have argued that it will lead to better supply chain management and reduce inflation in the economy.

Table 1.7 Present FDI inflow policy in India

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>Amount of FDI Inflows (Crs. Rs)</th>
<th>Amount of FDI Inflows (US Dollars)</th>
<th>% with total FDI inflows (+)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Trading (Single Brand)</td>
<td>204.07</td>
<td>44.45</td>
<td>0.03%</td>
</tr>
</tbody>
</table>

Source: Department of Industrial Policy and Promotion 2012.

1.10.2 Entrance routes for the foreign investors in FDI policy in India

In vision of the restrictive entrance policies for the foreign investors in the retail sector, they followed one or more of the following routes to expand their business in Indian market:

a. Franchise Agreements

It is a simplest way to come in the Indian organized retail market. In franchising and commission agents ‘services, FDI (unless otherwise prohibited) is permitted with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual way for entry of quick food bondage opposite a world.

b. Cash And Carry Wholesale Trading

100% of FDI is granted in wholesale trading which involves building of a large distribution infrastructure to assist local
manufacturers. The wholesaler deals only with smaller retailers and not with customers.

For example, Metro AG of Germany was the first significant global player to enter India through this route.

c. Strategic Licensing Agreements

Some foreign brands give exclusive licenses, and supply chain & logistics rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees.

For example, Mango, the Spanish apparel brand has entered India through this route with an agreement with Pyramid, Mumbai, SPAR entered into a similar agreement with Radhakrishna Food lands Pvt. Ltd

d. Manufacturing and Wholly Owned Subsidiaries.

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-inherited subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do organized retail. These companies have been authorized to sell products or services to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc.

1.10.3 FDI affects to host countries (mainly developing countries)

FDI provides the host country,

a. Foreign investments for developments i.e. capital
b. New profitable technology

c. Wealth of expertise and experience i.e. organizational technology and management skills

d. Increased employment

For small and medium sized companies, FDI represents an opportunity to become more actively involved in international business activities. Recent meta-analysis of the effects of FDI in developing countries suggests that it increases local productivity growth.

**Fig: 1.7 Amount of FDI Inflows**

![Amount of FDI Inflows (Percentage)](image)

*Source: Equity updates 2013.*

### 1.10.4 PROS AND CONS OF FDI IN INDIAN RETAIL

#### A. Pros of FDI in Indian Retail
i. **Plenty of Opportunities**

At the present status, Indian companies are exporting different categories of products to number of retailers across the international wide. As per the human perception, the human beings percepts that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. In sight of the availability of higher disposable incomes for Indians, there is an increasing tendency to pay for quality and ease and access to a one-stop shop which will have a wide range of different products. In the eventual analysis, the consumers will benefit in the form of potential lower prices due to enhanced and, possibly, tough competition in the market.  

ii. **Benefits for the Farmers**

Post-harvest lapse in the country are high. There are misplacing in the entire supply chain and logistics from farmer to market. More investment in cold chains is required. More investment to set up such high infrastructure facilities will come with the entry of FDI. This will benefit both farmers and consumers. Also, farmers can benefit with the farm-to-fork ventures with retailers which helps (i) to shutdown intermediaries; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.
iii Improved Technology and Logistics

Improved technology in the field of processing, operation, grading, handling and packaging of products and further technical developments in areas like enterprise resource planning, electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail outlets in India.

iv Impact on Real-Estate Development

Retail is intimately dependant on real estate as any retailer will require substantial spaces for setting up business. Real estate in India has gone through a remodel due to the demand of high-end retail malls and people's changing perception towards an enjoyable shopping experience. Thus real estate can get a further benefit in India and receive more investment with the opening up of FDI in multi-brand retail.

B. Cons of FDI in Indian Retail

a. It will replace host companies and restrict the local entrepreneurship.

b. Will take the best resource and also decrease local research and development undertakings.

c. FDI is more likely to develop growth in more advanced developing countries.
1.11 SUMMARY:

The Indian retail sector is witnessing tremendous growth with the changing demographics and an increase in the quality of life of semi urban people. Retail Sector is the most booming sector in the Indian economy. With a growing economy, improving income dynamics, rising awareness, and a youth-heavy customer base, India is well on its way to become one of the most prospective markets for the domestic retailers. Organized retailing in India is at present in its initial stages and experiencing high growth. The recent time has been observed as growth of Indian organized retail market with many folds. Retailing is one of the largest industry in India and one of the biggest sources of employment in the country.

The modern Indian consumer is seeking more value in terms of brand value, promotional offers, collection and display of products, price of the product, amenities provided in the store and so on. This has created a rapid growing opportunity for organized, modern retail formats to emerge in recent years and grow at a fast pace. The organized retailers in semi-urban cities can and should accompany to lead different consumer geographical segments and need, and to contribute in complementary ways to the economic development of the country.

This chapter, after presenting an overview of retailing scenario in India, introduces various concepts of retailing, considered in the present study.