CHAPTER-1
RETAILING

1.1 Introduction
The Indian retail landscape has evolved from the brick-and-mortar model to adopt technology for connecting with consumers. The Indian retail sector accounts for over 20% of the country’s gross domestic product (GDP) and contributes 8% to total employment. Retailing is the second largest employment provider after agriculture. The cumulative foreign direct investment (FDI) inflows in single-brand retail trading, during April 2000 to June 2013, stood at 69.26 million USD. The current estimated value of the Indian retail sector is about 500 billion USD and is pegged to reach 1.3 trillion USD by 2020. (www.economictimes.Com)

The sector is witnessing a radical change as traditional retail markets are replacing with new formats such as departmental stores, hypermarkets, supermarkets reflecting the western style. Malls have begun appearing not only in metros but also in Tier II cities giving the Indian consumer a new shopping experience. The growth of the sector is largely driven by changing life styles, favourable demographics, increasing disposable incomes, usage of plastic money, growth of middle class and an opportunity to tap the rural India.

Indian apparel retailing is the country’s largest opportunity for the organized retailers after food retailing. The clothing market is highly fragmented, with numerous organized and unorganized players operating across a wide variety of formats. Branded apparel accounts for only 20 percent of the total apparel market. Men’s clothing currently accounts for about 40 percent of all branded apparel sales as compared to 20 percent of children’s wear and 30 percent of women’s wear. The structure of apparel retail has changed dramatically in the recent past with the growth of large multi-brand apparel outlets and manufacturer brand-led chains.
Retailing services has become very much important in the competitive environment. Service quality has been widely used by the retailers as one of the important strategy. In this competitive environment the retailers are more forced to concentrate towards customer perception. Service quality and customer perception are thus the two core concepts of contemporary marketing theory and practice in retail industries. Retailing is a dynamic activity that has major contribution in achieving customer service and customer satisfaction as well as it has a major influence on the economy.

1.2 Retailing
The word ‘retail’ is derived from the French word ‘retaillier’ which refers to “cutting off, clip and divide” in terms of tailoring.\(^1\) It was first recorded as a noun with the meaning of a “sale in small quantities” in 1433 (French). Its literal meaning was to “cut off, shred, paring”. Like the French, the word retail in both Dutch and German (detailhandel and Einzelhandel respectively) also refer to sale of small quantities or items. Abraham Koshy and Mithileshwar Jha defined retailing as “Retailing involves a direct interface with the customer and co-ordination of business activities from end to end”.\(^2\) Retailing may include subordinated services, such as delivery. In commerce, a retailer buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end user.

Retailing is the interface between the producer and individual consumer buying for personal consumption. Retailer is one who stocks the producers’ goods and is involved in the act of selling it to the individual consumer, at a margin of profit. A retailer is the final stock point who makes products or services

\(^1\) Dhotre Meenal, Channel Management and Retail Marketing, Mumbai, Himalaya Publishing House, 3\(^{rd}\) edition, 2008, p.46.
available to the consumer. Hence, the value proposition a retailer offers to a consumer is easy availabilities of the desired product in the desired sizes at the desired times. The retailer is the final and important link between a producer or other intermediaries and the buyers, who are the end users.

According to Philip Kotler, retailing includes all the activities involved in selling goods or services directly to the final consumers for personal, non-business use. Although, selling goods or services directly to the final consumers is the primary activity in retailing, there are a number of auxiliary activities that are associated with it. As Figure 1 illustrates, retailers are involved in the distribution phase of an integrated supply chain and are in direct interface with consumers. At the front-end, retailers directly sell goods or services to consumers. However, at the backend, they are involved in procuring (also called sourcing), storing, and transporting products that they retail. In many cases, they are involved in processing and packaging as well. The logistics of retailing primarily depends on transportation, communication, and storage infrastructure. Well-developed infrastructure helps improve logistics and leads to efficiency gain in retailing.

Retailing activities are carried out by many institutions like manufacturers, wholesalers and mostly by retailers. Retailing consists of the sale of goods or merchandise, from a fixed location such as the departmental store or kiosk, in small or individual lots for direct consumption by the purchaser. Retailing is the well recognized business function which compromises making available desired product in the desired quantity at the desired time. This creates a time,
place and form utility for the consumer. The success of retailing is highly dependent on an efficient supply chain management. A well developed supply chain reduces wastages and transaction cost thereby reducing the cost of inventories to be maintained by the producers and traders. A reduction in the cost of inventory management leads to reduction in the final price to the consumer. In each stage of this supply chain, value is added and the total value addition determines the price of the product paid by the customer. At the retail stage, the value addition depends on the cost of retail logistics that, as indicated above, depends on transportation, communication, and storage infrastructure, and the profit margin for undertaking the retail enterprise. Any efficiency gain in retail logistics may benefit consumers in terms of lower prices and better quality of products and customer service.

Over time, retailing has been organised in many different ways and, as a result, one can see several different formats of retail trading. One such format is multi brand (multi-product) retailing. In case of multi brand retailing, the retailer offers a wide range of products that are produced by diverse producers presumably in geographically dispersed locations. Thus, by providing a vital link between a large number of producers and a large number of consumers, this format of retailing could potentially generate several benefits to the two sides of the market.

Retailing has been identified as a thrust area for promotion of textiles, processed foods, agricultural and horticultural produce. Retail sector can be divided into organized and unorganised sectors. In the developed countries, the retail industry has developed into a full-fledged industry where more than three-fourths of the total retail trade is done by the organized sector. Huge retail chains like Wal-Mart, Carr four Group, Sears, K-Mart, Mc Donalds, etc. have now replaced the individual small stores.
1.3 Retail Industry in India

Retailing in India is gradually inching its way toward becoming the next boom industry. The total concept of shopping has undergone a vast change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retailing has entered into India as is observed in the form of sprawling shopping centers, super markets and the huge complexes that offer shopping, entertainment and food all under one roof.

The Indian retail industry has experienced growth of 13.7% in 2013 and is expected to increase to USD 3,584 billion by 2020. The industry has a long way to go as there is a huge opportunity in streamlining the sector.

The Indian retailing sector is at an inflexion point where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth trajectory. The Indian population is witnessing a significant change in its demographics. A large young working population with average age of 26 years, nuclear families in urban areas, along with increasing working-women population and emerging opportunities in the services sector are going to be the key growth drivers of the organized retail sector in India. Higher disposable income, increase in dual income households, easy availability of credit, favourable demographic profile of the Indian consumers, exposure to media and brands has propelled the growth of retailing in India.

According to A.T. Kearney in its GRDI (Global Retail Development Index) 2013 report, the Indian retail industry is the fourth most attractive country for retail investment among 30 emerging markets. As of 2010, the penetration of organized players in the retail sector is only 6 percent according to Booz and Co (India) Pvt. Ltd. A McKinsey report indicates that the Indian retail market is likely to grow 4 times by 2025. India continues to be one of the most attractive destinations in the eyes of many international retailers. The Indian retail industry has been growing at a CAGR of 28 percent for the last 5 years, and provides employment to 8 percent of India’s working population.
Traditionally, the Indian retail sector has been characterized by Haats, Melas, Street vendors or the kirana stores. Though India has the highest number of per capita retail outlets in the world, the retail space per capita is around 2 Sq.feet, which is the lowest in the world. Nearly two-third of the stores are located in rural India.

In India, retailing industry has made huge strides over the last 10 years. Traditionally, retail is India’s largest industry, accounting for more than 10 percent of the country’s GDP and around 8 percent of the employment, according to figures of the National Council for Applied Economic Research (NCAER, 2005). Rated the fifth most attractive emerging retail market, India is being seen as a potential goldmine and has been ranked second in a Global Retail Development Index of 30 developing countries. It is estimated that over next five years the investment requirement will be Rs.30 billion per year. AT Kearney puts the figure at 8,00,000 crores with annual growth of 20%. Changing Consumer Behaviour patterns is the sign of promising future for the retail sector in India.

The retail environment in India is highly competitive, being the second largest employment provider after agriculture the sector also the second largest untapped market after China. There are some 12 million retail outlets deeply penetrated across the country and contributing to more than ten percent of the country’s GDP. The sector is witnessing a radical change as traditional retail markets are replacing with new formats such as departmental stores, hypermarkets, supermarkets reflecting the western style. Malls have begun appearing not only in metros but also in Tier II cities giving the Indian consumer a new shopping experience.

The study (National Council of Applied Economics Research-NCAER-August-2008) has identified 20 top Indian cities, which though accounting for only 10% of the country’s population, generate as much as 60% of its surplus income and 31% of its disposable income. The 20 large cities, which accounted
for nearly $100-billion of consumption expenditures are divided into three groups comprising: Mega cities (8), Boomtowns (7), and Niche Cities (5). The eight Mega cities apart from large population also have large consumer markets, They are: Mumbai, Delhi, Kolkata, Chennai, Bangalore, Hyderabad, Ahmedabad and Pune. The seven Boomtowns that have big population and high expenditure per household are: Surat, Kanpur, Jaipur, Lucknow, Nagpur, Bhopal and Coimbatore. The five Niche cities that are relatively smaller in population but have above national-average household spent are: Faridabad, Amritsar, Ludhiana, Chandigarh and Jalandhar. According to the report, these 20 cities despite impending economic slowdown, for the next eight years (2008-2016), will grow at a healthy rate of 10.1% per annum, compared to other cities growing at 7.9% per annum. In the past three years (2005-08), the top 20 have registered a growth of 11.2% per annum (Images F&R Research 2008). India has moved up to the 39th most preferred retail destination in the world in 2009, up from 44 last year. The turnover of the organized retail segment in India is pegged at around US$ 8.1 billion.

The total Private Consumption for the year 2009-2010 is of Rs.3,679,000 crore (Rs.36,790 billion) out of which the consumption from Retail is Rs.2,000,000 crore (Rs.20,000 billion) and the size of consumption from Modern Retail is of Rs.164,000 crore (Rs.1, 640 billion) which accounts 8.2% of total retail. Employment in modern retail is 10 direct and 100 indirect per Rs.1 crore (Rs.10 million) sales and total employment in modern retail is 1.65 million, estimated indirect employment in modern retail is 16.5 million and total dependents in modern retail so far is over 18 million people

The rural retail market is currently estimated at US$112 billion, or around 40 percent of the US$ 280 billion retail market. Major domestic retailers like AV Birla, ITC, Godrej, Reliance and many others have already set up farm linkages. Hariyali Kisan Bazaars (DCM) and Aadhars (Pantaloons- Godrej JV), Choupal Sagars (ITC), Kisan Sansars (Tata), Reliance Fresh, Project Shakti (Hindustan Unilever) and Naya Yug Bazaar are established rural retail hubs.
1.4 The Evolution of India’s Retail Sector

Retailing in India came with evolutionary patterns from Kirana store to Super market. The main drivers of the retail evolution in India are buying behavior of the customer, increase in disposable income of middle class, infrastructure development and changing customer choice. The target segments of retailers are the younger middle class earners which constitute more than 20% of total population.

![Evolution of Indian Retail](image)

**Figure 1.2**

From figure (2), one can discern four stages in the evolution of retailing in India. Historically, the seed of retailing germinated in village fairs or melas that were primarily a source of entertainment rather than an outlet for a well conceived economic activity. Later on, as the consumption basket expanded and production for market took hold, some forms of retailing started shaping up and they evolved into the traditional neighborhood shops (kiranas, convenience stores etc.). In rural areas, these kirana shop-owners had tremendous market power and as such, the consumers had to face the wrath of a number of unfair practices. A lack of proper distribution network in an economy with
geographically dispersed production locations aided the profiteering activities of these retail shops. Thus, the government stepped in with the objective of ensuring distribution of basic items at fair prices and established the public distribution system (PDS). The government also supported Khadi stores and cooperatives that essentially helped small producers involved in various traditional production activities. Government intervention helped remove some of the major distributional bottlenecks and that in turn ensured availability and fair price. However, bureaucratic red-tapism, corruption, and perverse incentives ingrained in even well intentioned public policies made the outcomes less than optimal.

The economic reforms and liberalisation in the 1990s facilitated the entry of foreign brands. With the rise in disposable income and the growth of urban middle class, the household consumption basket expanded to include items that Indian consumers did not typically purchase until then. The entry of foreign goods contributed to this trend and expanded consumers’ choice set. These developments created an environment conducive to the introduction of modern retailing that includes exclusive brand outlets (EBOs), super markets, departmental stores, and shopping malls. Almost all major Indian private corporate groups (Tatas, Reliance, Birlas) have now entered the retail sector.

Although, the evolution of India’s retail sector has seen the ushering in of modern formats of retailing, all other formats that can be seen in the earlier stages of this process coexist. In fact, the potential changes in the relative balance of power among these various formats and their direct beneficiaries in the advent of large foreign retailers are at the core of the ongoing debate.

1.4.1 Drivers of Evolution

1.4.1.1 Accelerating Household Income:

After 1991, the income of the educated middle class houses is increasing at the rate of 3.6%. It is expected that this rate will increase to 5.3% in future. The rate of growth in the urban middle class is 4.6% (http://www.urban.org) as
compared to the growth rate in the rural middle class households. It is also expected that average real household disposable income (income minus taxes, adjusted for inflation) will reach $6,977.

1.4.1.2 Change in Population Structure and Choice:
The Indian population structure is changing now. It consists more than 60% of people who are below the 30 years. After 1991, the income of younger middle class is increasing at a higher rate. The choice of this new young middle class earning people is also changing and they have now shifted from local brands to global brands. This younger middle class is the main target segment of the retail industry.

1.4.1.3 Infrastructure Development:
Government is investing hugely on roads, ports, aviation etc. All these factors attract the foreign investor to invest in retail sector. Now customer is more aware of the product and their features because of the Internet accessibility. So, rapid development in the infrastructure sector is one of the important factor which has accelerated the growth of retail in India.

1.5 Distinctive Characteristics of India’s Retail Sector
India’s retail industry has the following distinctive characteristics:
First, it is dominated by unorganised retailing. The unorganised retail sector consists of the traditional formats of retailing such as the local kirana shops, owner operated general stores, paan-beedi shops, convenience stores, handcart and pavement vendors, weekly haats, and bazaars. In contrast, the organised retail sector includes licenced retailers who are registered for sales tax, income tax etc. The privately owned large retail businesses and the corporate-backed retail chains and hypermarkets constitute this organised retail industry in India. It is apparent from Table 1 (alongside other estimates) that, unorganised retailing accounts for more than 90% of all retail trade in India.
Table 1.1
Size of the retail industry in terms value and employment in India

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (billions of USD)</td>
<td>450</td>
<td>1958</td>
</tr>
<tr>
<td>Estimated merchandise consumption (retail sales) (billions of USD)</td>
<td>120</td>
<td>490</td>
</tr>
<tr>
<td>Unorganised retail sector</td>
<td>115 (95.8%)</td>
<td>455 (92.9%)</td>
</tr>
<tr>
<td>Organised retail sector</td>
<td>5 (4.2%)</td>
<td>34 (7.1%)</td>
</tr>
<tr>
<td>No. of direct employees in the unorganised retail sector (millions)</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>No. of employees in the organised retail sector (millions)</td>
<td>0.1</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: Adapted from Technopak Analysis

Second, the retail industry in India is highly fragmented with millions of very tiny outlets scattered all over the country. According to Guruswamy et al. (2005), there were about 11 million outlets and only 4% of them were larger than 500 square feet in size. Patibandla (2012) estimates the number of the kirana stores to be around 12 million spread across 5,000 towns and 600,000 villages throughout the country. The proliferation of retail outlets is primarily explained by the relative ease with which a retail outlet can be established. The traditional forms of retailing require low investment and minimal infrastructure. For the same reason retailing has also been the primary form of disguised unemployment or underemployment in India. Most retail outlets are family-owned with family members working part-time or full-time, thus making it harder to obtain a precise estimate of actual employment generated by the retail sector in India.

Third, food retail trade is the largest segment of the retail industry in India. According to Guruswamy et al. (2005), it accounts for 63% of total retail sales.
At the family level, consumer expenditure on food accounts for, on an average, 50% of the total retail purchase. However, the share of food would be much larger for low income groups. While kirana stores sell food grains and dry foods, pavement stalls and sometimes better-organised larger vendors sell fruits and vegetables.

Fourth, the informal nature of the relationship between the traditional retail stores and the consumers is also an important feature of India’s retail sector. The repeated interactions with customers who live in geographically proximate locations generate mutually beneficial trust in exchanges. The customers are often able to obtain their consumables on credit and the stores earn customer loyalty.

Finally, the potential for growth of India’s retail sector is enormous. During the last two decades, the middle class has grown significantly and its average income has increased and its consumer aspirations. With the improvement in transportation and communication infrastructure, there has been a convergence of consumer tastes. Furthermore, India has a relatively young population. The median age is about 26 years. That is, more than 600 million people are under the age of 26 years. They are not only a source of very large future demand but also their tastes and preferences are likely to be less rigid and therefore, more amenable to the changing composition of consumer products. According to a report published by Boston Consulting Group (2012), India’s consumer market is expected to grow to an estimated USD 3,584 billion in 2020. As the report discusses, rising household income, urbanisation, the shift away from the traditional joint-family structure, and the coming of age of “Gen I” will contribute to this growth.

1.6 Classification of Indian Retail Sector

1.6.1 Food Retailers

There are large number and variety of retailers in the food-retailing sector. Traditional types of retailers, who operate small single-outlet businesses mainly
using family labour, dominate this sector. In comparison, super markets account for a small proportion of food sales in India, However the growth rate of super market sales has been significant in recent years because greater numbers of Indians belonging to higher income prefer to shop at supermarkets due to higher standards of hygiene and attractive ambience.

1.6.2 Health and Beauty Products
With growth in income levels, Indians have started spending more on health and beauty products. Here also small, single-outlet retailers dominate the market. However in recent years, a few retail chains specializing in these products have come into the market. Although these retail chains account for only a small share of the total market their business is expected to grow significantly in the future due to the growing quality consciousness of buyers for these products.

1.6.3 Clothing and Footwear
Numerous clothing and footwear shops in shopping centers and markets operate all over India. Traditional outlets stock a limited range of cheap and popular items; in contrast, modern clothing and footwear stores have modern products and attractive displays to lure customers. Rapid urbanization together with changing patterns of consumer tastes and preferences will decide the future of traditional outlets.

1.6.4 Home Furniture and Household Goods
Small retailers again dominate this sector. Despite the large size of this market, very few large and modern retailers have established specialized stores for these products. However there is considerable potential for the entry or expansion of specialized retail chains in the country.

1.6.5 Durable Goods
The Indian durable goods sector has seen the entry of a large number of foreign companies during the post liberalization period. A greater variety of consumer electronic items and household appliances became available to the Indian
customer. Intense competition among companies to sell their brands provided a strong impetus to the growth for retailers doing business in this sector.

1.6.6 Leisure and Personal Goods

Increasing household incomes due to better economic opportunities have encouraged consumer expenditure on leisure and personal goods in the country. There are specialized retailers for each category of products (books, music products, etc.) in this sector. Another prominent feature of this sector is the popularity of franchising agreements between established manufacturers and retailers. Today the trend is the development of integrated retail cum entertainment centers or shopping malls. An increasing number of retailers are focusing on malls now as opposed to stand-alone developments. While the number of shopping malls has seen a massive surge in the recent past in the metros and their suburbs, the latest trend in this sector is the increasing focus on providing leisure activities such as multiplexes, facilities for kids entertainment, eateries etc. within the mall premises.

1.7 Retail Formats in India

1.7.1 Traditional Formats:

1.7.1.1 Itinerant Salesman:

It is a type of direct selling which started centuries ago. It is an example of door to door, office to office delivery or marketing. This type of format has been very popular throughout India.

1.7.1.2 Haats:

Haats are the unique example of traditional malls in India. Haats refers to locations which witness a public gathering of buyers and sellers at fixed time and fixed locations. Sellers sell different types of items.

1.7.1.3 Melas:

Melas are fairs and they can range from commodities fairs to religious fairs. It is located virtually in every state in India.
1.7.1.4 Mandis:
Mandis are market set up and regulated by State Government for the sale of agriculture produce directly from farmers. These mandis play a significant role in providing better prices to farmers.

1.7.2 Established Formats:

1.7.2.1 Malls:
Shopping malls are the largest form of organized retailing today. These are located mainly in metropolitan cities, in proximity to urban outskirts. The area of shopping malls range from 60,000 sq to 7,00,000 sq and above. Malls provide an ideal shopping experience by providing a mix of all kinds of products and services, food and entertainment under one roof.

Shopping malls are an emerging trend in the global arena. According to historical evidences shopping malls came into existence in the middle ages. The concept of departmental stores came up in the 19th century with the Industrial Revolution. Consumers wanted a better shopping experience and this demand gave rise to the emergence of shopping malls in India.

Originally the first shopping mall was opened in Paris. Then the trend followed in the other metros over the world, and there was a spree of shopping malls at various places. In this age of mass production and mass consumption, the concepts of shopping malls is most the modern method of attracting consumers. The concept of shopping was altered completely with the emergence of these shopping malls

Advantages of shopping malls
- Increase in the growth of the organized retail sector
- Monumental increment in economic growth
- Employment generation by the organized retail sector
- Healthy competition means better products and services
Disadvantages of shopping malls

➢ The companies with superior resources would muscle out the ones inferior to them.
➢ Monopolization of the organized retail sector

Mall development is phenomenal in India. The mall mania is spreading fast and has entered even the second tier cities in India. Real estate developers are jumping very fast to take this further from Metro cities to smaller cities and corporate houses like ITC and Sriram group are making steady progress to make this phenomena feasible in rural market also. There is no denying that the top notch cities like Mumbai, Delhi, Bangalore, Hyderabad, Kolkata, Chennai and Pune are leading the way but the second tier cities like Ludhiana, Chandigarh, Nagapur and Surat are catching the eye of all retailers. Large format malls are increasingly getting prominent with adequate retail space allocated to leisure and entertainment.

1.7.2.2 Specialty Stores:
Specialty Stores of India and its subsequent successful operation is credited to India Economic System reform in July 1991. Specialty Stores of India is at its nascent stage and heading for a stupendous growth in the near future. The Central Government has ultimately realized the need to remove the insulation out of the Indian retail sector. Both, Indian and international market leaders are pouring into the Indian market to encash on the specialty stores retail boom. In fact, some industry leaders operating in other sectors are also diversifying into specialty stores sector.

A typical specialty store gives attention to a particular category and provides high level of service to the customers. Branded stores also come under this format. For example if a customer visits a Reebok or Gap store then they find just Reebok and Gap products in the respective stores. Specialty Stores of India are Pantaloons, Steel junction, Metal junction, Food bazaar, Haldiram
bhujiwala, Music world, Nokia world, Sony world, Khadims, Adidas, Bata, Raymonds, etc.

1.7.2.3 Departmental Store:

Departmental Stores often bear a resemblance to a collection of specialty stores. A retailer of such store carries variety of categories and has broad assortment at average price. K Raheja's Shoppers Stop is a good example of department stores. Other examples are Lifestyle and Westside. These stores have further categories, such as home and décor, clothing, groceries, toys, etc.

Department store offers an extensive assortment of goods and services that are organized into separate departments for the purpose of efficient buying, assortment, promotion and above all ease of shopping for the consumer. Such a format provides the greatest selection of any general merchandize and very often serves as the anchor store in shopping mall or shopping centre. In India, the number of department stores is less compared too the retail formats such as supermarkets and discount stores. Shoppers' Stop is the first one to open a department store in the early 1990s and currently operates 19 stores in 10 different cities in India. The store strongly focuses on lifestyle retailing and mainly divides into five departments such as apparel, accessories, home decor, gift ideas and other services. It attracts more than 12 million shoppers every year with a conversion rate of 38 per cent.

1.7.2.4 Discount Stores:

Discount stores offers extensive assortment of merchandise at affordable and cut-rate prices. Discount stores are those that offer their products at a discount, that is, at a lesser rate than the maximum retail price. This is mainly done when there is additional stock left over towards the end of any season. Discount stores sell their goods at a reduced rate with an aim of drawing bargain shoppers. These are the stores or factory outlets that provide discount on the MRP items. They focus on mass selling and reaching economies of scale or selling the stock left after the season is over.
1.7.2.5 Super Markets:

A supermarket, a large form of the traditional grocery store, is a self-service shop offering a wide variety of food and household products, organized into aisles. It is larger in size and has a wider selection than a traditional grocery store, but is smaller and more limited in the range of merchandise than a hypermarket or big-box market.

1.8 Benefits of Retailing:

Retailing is good for national economies where it has positive influence on inflation and product availability. It also creates fortunes for its owners and is a tremendous source of employment.

The benefits of retailing are:
- Better quality products
- Employment opportunities
- Better social infrastructure
- Enhanced foreign exchange
- Benefit to tourism
- Better showcase for exports

1.9 Challenges in Retailing:
- The biggest challenge facing the Indian organized retail sector is the lack of retail space. With real estate prices escalating due to increase in demand from the Indian organized retail sector, it is posing a challenge to its growth. With Indian retailers having to shell out more for retail space it is effecting there overall profitability.
- Trained manpower shortage is a challenge facing the organized retail sector in India. The Indian retailers have difficulty in finding trained persons and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels. The industry is facing a severe shortage of talented professionals, especially at the middle-management level.
The Indian government has allowed 51% foreign direct investment (FDI) in the India retail sector to one brand shops only. This has made the entry of global retail giants to organized retail sector in India difficult. This is a challenge being faced by the Indian organized retail sector. But the global retail giants like Tesco, Wal-Mart, and Metro AG are entering the organized retail sector in India indirectly through franchisee agreement and cash and carry wholesale trading. Many Indian companies have entered the Indian organized retail sector like Reliance Industries Limited, Pantaloons, and Bharti Telecoms. But they are facing stiff competition from these global retail giants. As a result discounting is becoming an accepted practice. This too brings down the profit of the Indian retailers. All these are posing as challenges facing the Indian organized retail sector.

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. 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.

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 labour laws govern the number of hour’s 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. The
retail sector does not have ‘industry’ status yet making it difficult for retailers to raise finance from banks to fund their expansion plans. Government restrictions on the FDI are leading to an absence of foreign players resulting into limited exposure to best practices.

- Non-availability of Government land and zonal restrictions has made it difficult to find a good real estate in terms of location and size.

1.10 Foreign Direct Investment (FDI) in India’s Retail Sector:
In December 2012, Indian Parliament approved of the central government’s decision to allow foreign direct investment (FDI) in multi-brand retailing. This paved the way for foreign retailers to open retail stores with 51 per cent ownership in major cities to sell a large variety of products under one roof. However, the state governments will have the rights to prevent foreign retailers from opening up stores in their respective states. It may be noted that foreign capital has already been allowed in single-brand retailing. Furthermore, there are several indirect channels, such as franchise agreements, cash and carry wholesale agreements, strategic licensing agreements, manufacturing and wholly owned subsidiaries, through which foreign companies including large retailers have already had access to the Indian market. Nevertheless, the debate over FDI in retailing has been going on for quite some time.

On 20th July, 2014, the Indian government proposed allowing foreign retailers, who manufacture products in the country, to sell via e-commerce platforms, a step towards liberalising foreign investment in the country’s $13 billion e-commerce sector.

The move is likely to benefit the local units of retailers such as Marks and Spencer, Nike, Puma and Benetton among others, who currently sell online in India through local franchisees or licensing agents. The proposal, presented by Finance Minister Arun Jaitley as part of his budget for the fiscal year through March 2015, will also end the ambiguity around who can sell their products using online platforms.
Jaitley in his budget speech said manufacturing units will be allowed to sell products through retail channels, including e-commerce platforms, without any additional approvals. India allows 100 percent foreign investment in manufacturing barring a few areas such as defence. The move to relax FDI rules in e-commerce for manufactured goods by foreign retailers is a very important step in helping the e-commerce industry grow.