

## Problem faced by Retail Industry in India

\*Dr Shilpa S. Wakle

### Introduction:

India has often been called a nation of shopkeepers. Presumably the reason for this is; that a large number of retail enterprises exist in India. The word **“Retail”** is defined in oxford dictionary means **“sale of goods to consumers”**. However, the means and ways to sell goods and services are not as simple as the definition. The word “Retailing” as defined in dictionary means “sale of goods to the public in small quantities”. Ask Shoppers Stop, Future Group, Westside, Food world or the Lifestyle chain. They would say retailing is big and it’s growing larger by the day. Retailing is the combination of activities involved in selling or renting consumer goods and services directly to ultimate consumer for their personal or household use.

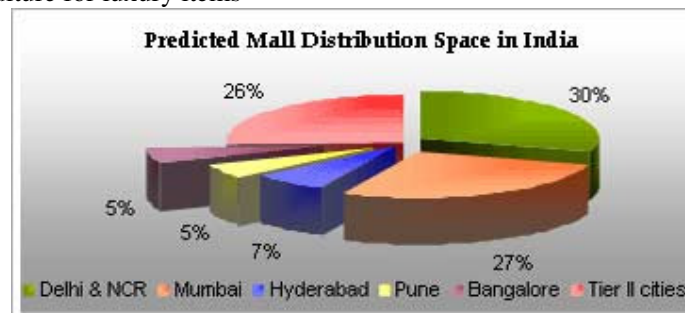
With the changing scene, definition today for retailing should probably as **“Sale of quantity goods and services to public at the right price, right place, right time, and quantity and packing”**.

Retailing is one of the pillars of the economy in India and accounts for 13% of GDP. The retail industry is divided into organized and unorganized sectors. Over 12 million outlets operate in the country and only 4% of them being larger than 500 sq ft (46 m<sup>2</sup>) in size. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. In India, a shopkeeper of such kind of shops is usually known as a dukandar.

Retail and real estate are the two booming sectors of India in the present times. And if industry experts are to be believed, the prospects of both the sectors are mutually dependent on each other. Retail, one of India’s largest industries, has presently emerged as one of the most dynamic and fast paced industries of our times with several players entering the market. Accounting for over 10 per cent of the country’s GDP and around eight per cent of the employment retailing in India is gradually inching its way toward becoming the next boom industry.

As the contemporary retail sector in India is reflected in sprawling shopping centers, multiplex- malls and huge complexes offer shopping, entertainment and food all under one roof, the concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. This has also contributed to large-scale investments in the real estate sector with major national and global players investing in developing the infrastructure and construction of the retailing business. The trends that are driving the growth of the retail sector in India are

- Low share of organized retailing
- Falling real estate prices
- Increase in disposable income and customer aspiration
- Increase in expenditure for luxury items



Another credible factor in the prospects of the retail sector in India is the increase in the young working population. In India, hefty pay packets, nuclear families in urban areas, along with increasing working-women population and emerging opportunities in the services sector. These key factors have been the growth drivers of the organized retail sector in India which now boast of retailing almost all the

\*Assistant Professor Mumbai

preferences of life - Apparel & Accessories, Appliances, Electronics, Cosmetics and Toiletries, Home & Office Products, Travel and Leisure and many more. With this the retail sector in India is witnessing rejuvenation as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. The retailing configuration in India is fast developing as shopping malls are increasingly becoming familiar in large cities. When it comes to development of retail space specially the malls, the Tier II cities are no longer behind in the race. If development plans till 2007 is studied it shows the projection of 220 shopping malls, with 139 malls in metros and the remaining 81 in the Tier II cities. The government of states like Delhi and National Capital Region (NCR) are very upbeat about permitting the use of land for commercial development thus increasing the availability of land for retail space; thus making NCR render to 50% of the malls in India.

India is being seen as a potential goldmine for retail investors from over the world and latest research has rated India as the top destination for retailers for an attractive emerging retail market. India's vast middle class and its almost untapped retail industry are key attractions for global retail giants wanting to enter newer markets. Even though India has well over 5 million retail outlets, the country sorely lacks anything that can resemble a retailing industry in the modern sense of the term. This presents international retailing specialists with a great opportunity. The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles, burgeoning income and favorable demographic outline.

#### **Importance of Retailing:**

Organized retailing in India was estimated at Rs. 25000 crores in 2005-2006 and has grown at about 40% over the last 3-5 years (Source: KSA Retail outlook) Retailing has a tremendous impact on the economy. It involves high annual sales and employment. As a major source of employment retailing offers a wide range of career opportunities including: store management, merchandising, visual merchandising, and marketing, one owning a retail business.

Consumer benefit from retailing because in that, retailers performs marketing Functions that makes it possible to a broad variety of products and services.

#### **Review of Literature**

❖ Anticipating growth, Subhiksha rapidly added new stores across the country with large-scale national advertising. This resulted in critical cash flow problems that led to the rapid closure and failure of Subhiksha

❖ (Credit is the major reason for the lower income groups to shop at small local stores. Credit cards are typically not available to the lower income groups in India as credit card firms face high defaults rates and losses. Also tracing defaulters among customers by credit card firms is typically difficult in India as defaulters can and often do migrate to other towns without a trace. Local creditors typically have a better ability to trace defaulters)

❖ To cover higher costs, these medium-sized stores rarely gave any discounts on the marked maximum retail price

❖ More shut down 70 unviable stores in early 2009 while revamping the remaining 635 stores in a major re-launches effort. Similarly Spencers closed 56 unviable stores early this year.

❖ Reliance Fresh, in food retail, is reported to have lost

❖ About USD50 million in 2009 while its hypermarket formats lost USD10 million

❖ Poor location choices have resulted in some Big Bazaar stores showing poor results. For example, two Big Bazaar stores were closed in Ahmedabad due to poor location choices.

❖ *{RETAIL IN PRACTICE MULTI-BRAND RETAILING FAILURES IN INDIA}*

❖ *(BY GANESH N. PRABHU AND ASHIS MISHRA, INDIAN INSTITUTE OF MANAGEMENT BANG ALORE)*

❖ Davies (1999) examined the longevity/success of one traditional retailer, Marks & Spencer, using. Financial data. His purpose was to note whether retail evolution patterns were characterized by either of two well-known theories of retailing, i.e. the Wheel of Retailing model and the Retail Accordion model. Davies (1999) identify. ed. Five phases in the evolution of Marks & Spencer's retailing activity: (1) early erratic growth, (2) store development, (3) sales growth, (4) productivity improvements and (5) diversification. A conclusion was that Marks & Spencer's evolution\ had been characterized by cyclical patterns that reacted changes in the macro-economic environment (i.e. wars, recession, etc.).

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❖ Yet another report in September 2008 was titled, "The Great Indian Bazaar: Organized Retail Comes of Age in India." The study, by consulting firm McKinsey, said that by 2015 India was likely to be a US\$450 billion retail market. Organized retail would grow from 5% to 14%-18% by 2015. The report made two other important points. First, "mom-and-pop stores will continue to remain relevant across large and small towns." Second, "retail in India can be profitable, but not with cut-and-paste global formats." The four mantras for success included innovative "local" formats; customer-backed merchandise platforms; an efficient supply chain; and an empowered front-end sales team, said McKinsey.

❖ KPMG's Srinivas reasoned that Vishal's slide started bcoz of the economic slowdown, & rapid expansion of its stores made things worse. Relatively low knowledge of the retail industry was another reason he gave for what it was reduced to doing.

❖ ( Mookerji, 2011)

❖ The ICRIER report, released in the middle of last year, found that it was "a positive sum game in which both unorganized and organized retail [could] not only coexist but also grow substantially in size." The study carried out by reported:

❖ The total retail business in India would grow at 13% annually, from US\$322 billion in 2006-07 to US\$590 billion in 2011-12.

❖ The unorganized retail sector would grow at about 10% per year, with sales rising from US\$309 billion in 2006-07 to US\$496 billion in 2011-12.

❖ Organized retail, which now constitutes a small 4% of the total retail sector, is likely to grow at a much faster pace of 45% to 50% per year and quadruple its share in total retail trade to 16% by 2011-12.

❖ Retail in the country," he says. "We had assumed a GDP growth of 8% to 10% during 2007-12 in the report. This is now impossible, at least for the current year 2008-09 and the coming year. Organized retail cannot therefore grow at 45% to 50% as we envisaged."

❖ Titled "The Rising Elephant," the report concluded that the organized sector share would account for 9% to 10% by 2010. Increased employment, efficiency in agriculture and increased exports through sourcing from India were the three most significant benefits of modern trade, the study said.

❖ An increasing number of people in India are turning to the services sector for employment due to the relative low compensation offered by the traditional agriculture and manufacturing sectors. The organized retail market is growing at 35 percent annually while growth of unorganized retail sector is pegged at 6 percent

❖ The Indian economy has registered a growth of 8% for 2007. The predictions for 2008 is 7.9%-The enormous growth of the retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace and by 2010, 300 malls are estimated to be operational in the country

❖ With over 1,000 hypermarkets and 3,000 supermarkets projected to come up by 2011, India will need additional retail space of 700,000,000 sq ft (65,000,000 m<sup>2</sup>) as compared to today. Current projections on construction point to a supply of just 200,000,000 sq ft (19,000,000 m<sup>2</sup>), leaving a gap of 500,000,000 sq ft (46,000,000 m<sup>2</sup>) that needs to be filled, at a cost of US\$15-18 billion.

❖ According to the Icrier report, the retail business in India is estimated to grow at 13% from \$322 billion in 2006-07 to \$590 billion in 2011-12. The unorganized retail sector is expected to grow at about 10% per annum with sales expected to rise from \$ 309 billion in 2006-07 to \$ 496 billion in 2011-12.

❖ Organized retail is expected to garner about 16-18 percent of the total retail market (US \$ 65-75 billion) in the next 5 years.

❖ Currently, India sits atop the global retail opportunity index as the greatest underserved market in the world.

❖ This has significant opportunities for companies waiting to sell in this market.

❖ India's retail industry, the 9th largest globally and valued at \$330 billion

❖ Accelerate in the next decade as significant economic reforms increases opportunity. India has entered numerous

❖ There seems to be a considerable potential for the entry or expansion of specialized retail chains in the country. 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. 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 popularity of franchising agreements between established manufacturers and retailers. A strong impetus to the growth of retail industry is witnessed by economic boom and driver of key trends in urban as well as rural India.

***Trouble in Store: A Setback for India's Organized Retail Sector***

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is India's largest retail chain -- or some would prefer to say "it was." Over the past few months, the network of neighborhood discount shops has been coming apart at the seams. Most of the outlets are now closed. The company -- Subhiksha Trading Services -- has been unable to pay salaries and statutory dues for the past few months. With the unpaid security agency staff also not reporting for work, many of the stores have been vandalized. "The properties have become vulnerable targets," founder and managing director R. Subramanian told *The Financial Express*. The vandals, he said, could include "disgruntled vendors, employees, anti-social elements taking advantage of the situation, and even owners of the real estate" rented by the retail chain.

"Subhiksha was a value-focused retailer born at a time when organized retailing was only for the elite," said Subramanian in an email to India Knowledge@Wharton.

Much of this battle took place in 2007. Today, organized retail is downsizing by itself. Reliance has reassessed its plans and closed some stores; it is in consolidation mode. According to the Future Group's Biyani, growth has moderated. "While urban consumers have the ability to spend, we believe their confidence level has been low leading to disproportionate savings levels," says a report by equity research firm Enam Securities. "Weak same-store sales have cast doubts on the retail consumption story." According to *The Economic Times*: "Almost all retailers, listed and unlisted, are putting off or curtailing large-scale expansion plans announced earlier."

**Some of the problems cited about modern retail are:**

- The tax structure in India favors small retail business
- Lack of adequate infrastructure facilities
- High cost of real estate
- Dissimilarity in consumer groups
- Restrictions in Foreign Direct Investment
- Shortage of retail study options
- Shortage of trained manpower
- Low retail management skill
- Higher labour cost
- Social Security to employees
- Bigger Premises
- retail differentiation
- supply chain logistics
- significant losses/damages during shipping
- customer insight, allocation and assortment techniques
- customer experience, value vs. price, aspiration, innovation, accessibility of supplier's brand

**Objectives**

1. To study the role of retail industry in India.
2. To study the problems and prospects of modern/ organized retail.

**Conclusion:**

Modern retail started with a great hype as reported in literature review. However, in last few years the sector has started witnessing problems as reflected in closure of Subhiksha & branches of many other organized retail outlets. There are many reports carried by Magzines & Newspaper or problem faced by Modern retail in India. But there is hardly any empirical evidence about the reasons behind the problems faced by organized retail in India.

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