ORGANIZED RETAILING: GROWTH, IMPACT AND FUTURE

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ABSTRACT

Presents the introduction about the Indian retail, its present status, its future prospectus. An introduction of apparel sector, service quality, retail service quality, customer loyalty is also presented. The chapter also illustrate objectives of the study, problem statement, need for the study, as well as the significance of the study. This study is unique in many ways because it is conducted in the sector which is considered as the potential goldmine of Indian economy. The main aim of this research is to analyse the impact of retail service quality on customer loyalty intentions.

INTRODUCTION

Indian retail which is composed of organised and unorganised retail contributes 10 per cent to Indian GDP. This chapter also highlights segment analysis, growth factors, retail formats, SWOT analysis, FDI policy, green retailing and ICT tools used by Indian retailers. The second section is devoted to the Indian apparel retail. This section reflects the segment analysis of Indian apparel retail, key business models, SWOT analysis and distribution channel in Indian RMG industry. Service quality which covers different perspectives on quality, total perceived quality, determinants of service quality, service quality measurements is the third section of the chapter. Retail service quality is the fourth section of the chapter. A more in depth discussion is then presented of retail service quality which is the focus of this research.
INDIAN RETAIL SECTOR

Retailing is the largest private sector industry in the world economy with the global industry size exceeding $6.6 trillion and a latest survey has projected India as the top destination for retail investors. India is currently the twelfth largest consumer market in the world. A McKinsey report, “The rise of Indian Consumer Market”, estimates that the Indian consumer market is likely to grow four times by 2025. A good talent pool, unlimited opportunities, huge markets and availability of quality raw materials at cheaper costs is expected to make India overtake the world’s best retail economies by 2042, according to industry players.

There are exciting times for Indian Retail. Markets in Asian giants like China are getting saturated, the AT Kearney’s 2007 Global Retail Development Index (GRDI), for the third consecutive year placed India to the top of retail investment destination among the 30 emerging markets across the world. Commercial real estate services company, CB Richard Ellis’ findings state that India’s retail market has moved up to the 39th most preferred retail destination in the world in 2009, up from 44 last year. The recent growth spurt was achieved primarily through a surge in productivity and is sustainable. Similarly, the study undertaken by ICRIER estimates that the total retail business in India will grow at 13 per cent annually from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12.

The Indian retail industry is the fifth largest in the world. With continued economic expansion and retail growth, India is set to become a US$ 450 billion retail market by 2015, comparable in size to Italy (US$ 462 billion) and much larger than Brazil (US$ 258 billion) today. The present value of the Indian retail market is estimated by the India Retail Report to be around Rs. 12,00,000 crores ($270 billion) and the annual growth rate is 5.7 percent. Furthermore around 15 million retail outlets help India win the crown of having the highest retail outlet density in the world. Retail sector is the largest source of employment after agriculture, and has deep penetration into rural India. It is also believed that 21 million people are employed in the retail sector which is 7 per cent of the total national workforce whereas the global average is around 10-12 per cent. It is estimated that an additional eight million jobs will be generated through direct and indirect employment related to the retail sector. India has the highest number of retail outlets in the world at over 15 million retail outlets, and the average size of one store is 50-100 square feet. It also has the highest number of outlets (11,903) per million inhabitants. The per capita retail space in India is among the lowest in the world, though the per capita retail store is the highest. Majority of these stores are located in rural areas.

INDIAN UNORGANISED RETAIL MARKET

According to the National Accounts Statistics of India the ‘unorganised sector’ includes units whose activity is not regulated by any statute or legal provision and/or those, which do not maintain regular accounts. Thus, unorganised retailing refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner managed general stores, paan/beedi shops, convenience stores, hand cart and...
Unorganised retailing is characterized as unstructured and high degree of fragmentation with street markets constitutes form peddlers, vegetable vendors, neighbourhood stores and consumer durable stores to manufacturer owned retail outlets. Unorganised retail sector covers all those forms of trade which sell an assortment of products and services ranging from fruits and vegetables to shoe repair. These products and services may be sold or offered out of a fixed or a mobile location and the number of people employed con range between 10-20 people. Thus the neighbourhood baniya, the paanwala, the cobbler, the vegetable, fruit vendor, etc. may be termed as the unorganized sector.

Traditionally three factors have plagued the Indian retail industry:

**Unorganized:** India is known as nation of shopkeepers where vast majority of the retail stores are small “father and son” outlets. Traditionally it is a family’s livelihood, with their shop in the front and house at the back, while they run the retail business.

**Fragmented:** India has some 15 million retail outlets, however a disturbing point is that 96 per cent of them are smaller than 500 square feet in area. This means that India per capita retailing space is about 2 square feet (compared to 16 square feet in the United States).

India’s per capita retailing space is thus the lowest in the world.

**Rural bias:** Nearly two thirds of the stores are located in rural areas. Rural retail industry has typically two forms: “Haats” and “Melas”. Haats are the weekly markets: serve groups of 10-50 villages and sell day-to-day necessities. Melas are larger in size and more sophisticated in terms of the goods sold (like TVs).

The unorganized retail sector is expected to grow at approximately 10 per cent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion in 2011-12. It is a low cost structure, mostly owner-operated, has negligible real estate and labor costs and little or no taxes to pay. According to a survey by AT Kearney, an overwhelming proportion of the Rs. 4,00,000 crore retail markets is UNORGANISED. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector.

**INDIAN ORGANISED RETAIL MARKET**

Organised 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. In other words, it is a network of similarly branded stores with an element of self-service. Organised retail in India today holds only a fraction of the market share potential in India. In 2001, organized retail trade in India was worth Rs 11,228.7 billion. It has risen from ZERO to 6 per cent in a very short period mainly on volumes and not a value-driven growth. Associated Chambers Of Commerce and Industry (ASSOCHAM) reported that the organized retail sector is recording phenomenal growth and will completely revolutionize retailing over next 3-4 years. As per estimates made by ASSOCHAM, the organized retail in urban market is expected to grow at the rate of 50 percent to reach a value of 30 percent of the total retail market in India. It added that currently, the rural organized retail in India, which is at nascent stage at present with hardly a value of 2 percent of total organized retail, is expected to grow over 10 percent by 2013.
Organised Retail Comes of Age in India’, organised retail in India is expected to increase from 5 per cent of the total market in 2008 to 14 - 18 per cent of the total retail market and reach US$ 450 billion by 2015. Furthermore, according to a report titled ‘India Organised Retail Market 2010’, published by Knight Frank India in May 2010, around 55 million square feet (sq ft) of retail space will be ready in Mumbai, national capital region (NCR), Bengaluru, Kolkata, Chennai, Hyderabad and Pune. Besides, between 2010 and 2012, the organised retail real estate stock will grow from the existing 41 million sq ft to 95 million sq ft. The share of organised retail in developed countries is much higher than developing countries like India. Among the BRIC countries only in India the share of organised retail is low. The share of other BRIC countries is Brazil (36 per cent), Russia (33 per cent), and China (20 per cent). In 2008, the share of organised retail in the US was around 85 per cent, in Japan it was 66 per cent, and in the UK it was 80 per cent, while in developing countries like China and Russia it was 20 per cent and 33 per cent respectively. It is seen that the organised sector in India is still has a long way to go because the unorganised retail still continues to dominate the retail market.

THE GROWTH OF ORGANISED RETAIL & BENEFITS FOR INDIA

This retail revolution could do wonders for the Indian economy: creating over 1.6 million much needed new jobs in the next five years, raising overall economic productivity and perhaps most importantly, lowering prices for shoppers.

Higher sector productivity:
- Would raise sector productivity and growth by 30-40 per cent
- Would add US$ 3-5 billion in GDP growth over five years

Lower prices for consumers:
- Could lower consumer prices by 3-5 per cent
- Could absorb 0.3-0.5 per cent of total inflation

Efficiency:
- Should reduce waste through supply chain pipes
- Could increase farmer income by 20-30 per cent

Increased tax contribution of retail:
- Could improve tax contribution by up to 1 per cent of retail sales or Rs. 3,000 crores

More formal employment:
- Would create 1.6 million formal jobs in retailing alone
- Would add 2-3 times as many new jobs in supporting systems
IMPACT OF ORGANISED RETAILING ON UNORGANISED RETAILING

The retail sector is expanding and modernizing rapidly in line with India’s economic growth. It offers significant employment opportunities in all urban areas. A study undertaken by ICRIER on the retail industry rigorously analysed the impact of organized retailing on different segments of the economy. One of the rather surprising findings of the study is that low-income consumers save more than others through shopping at organized retail outlets.

This is a result of targeted discount shopping. It is also seen that farmers gain considerably from direct sales to organized retailers, with significant price and profit advantages as compared with selling either to intermediaries or to government regulated markets. Large manufacturers have also started feeling the competitive impact of organized retail through both price and payment pressures.

Impact on Unorganized Retailers

• Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers.
• The adverse impact on sales and profit weakens over time.

• There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers.

• The rate of closure of unorganized retail shops in gross terms is found to be 4.2 per cent per annum which is much lower than the international rate of closure of small businesses.

• Most unorganized retailers are committed to remain independent and barely 10 per cent preferred to become franchisees of organized retailers.

Impact on Consumers

• Consumers have definitely gained from organized retail on multiple counts.
• Overall consumer spending has increased with the entry of the organized retail.

• While all income groups saved through organized retail purchases, the survey revealed that lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers.

• Unorganized retailers have significant competitive strengths that include consumer goodwill, credit sales, and amenability to bargain, ability to sell loose items, convenient timings, and home delivery.

Impact on Intermediaries

• There is, some adverse impact on turnover and profit of intermediaries dealing in products such as, fruit, vegetables, and apparel.
• Over two-thirds of the intermediaries plan to expand their businesses in response to increased business opportunities opened by the expansion of retail.
• Only 22 per cent do not want the next generation to enter the same business.

Impact on Farmers
• Farmers benefit significantly from the option of direct sales to organized retailers.
• Average price realization for cauliflower farmers selling directly to organized retail is about 25 per cent higher than their proceeds from sale to regulated government mandi.
• Profit realization for farmers selling directly to organized retailers is about 60 per cent higher than that received from selling in the mandi.

Impact on Manufacturers
• Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures.
• Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, ‘adopting’ small retailers, and setting up dedicated teams to deal with modern retailers.
• Small manufacturers did not report any significant impact of organized retail.

POTENTIAL SEGMENTS FOR ORGANISED RETAIL

India has about 200 million households today. In an emerging market such as this, income remains the most critical driver of consumption. Indian households can be classified into five economic groups based on real annual disposable income:

• **Globals**: Enjoying an annual disposable income of over Rs. 1 million per annum, households in this group comprise the richest people in the country and can afford a global lifestyle. The group has traditionally consisted of senior corporate executives, large business owners, politicians, big agricultural-land owners and top-tier professionals. It now includes a younger, upwardly mobile-section – mid-level executives and graduates from India’s best colleges who are offered the highest salaries in the country.

• **Strivers**: With an annual disposable income of Rs. 5,00,000 to Rs. 1 million per household, this group consists of highly successful people in cities, towns, and villages who have established sources of income and substantial savings. It includes business people, government officials, and medium-scale industrialists.

• **Seekers**: Households in this group have an annual disposable income of Rs. 2,00,000 to Rs. 5,00,000 per household. By far the most varied economic group in terms of employment, attitude, age, and other variables, this group includes those fresh out of college as well as traditional white-collar employees, mid-level government officials, and medium-scale traders and businesspeople.
Aspirers: With an annual disposable income of Rs. 90,000 to Rs. 2,00,000 per household, this group includes small shopkeepers, and farmers, and low-skilled workers in industries and services. People in this group spent about half of their income on basic necessities.

Deprived: This group consists of the poorest households in the country with an annual disposable income of less than Rs. 90,000 per household, making ends meet through unskilled or low-skilled activities. People falling in this economic group often find it hard to find work throughout the year and have to rely on seasonal or part-time employment.

GROWTH FACTORS IN INDIAN ORGANISED RETAIL SECTOR

At present organised retail in India is at a blossoming stage buts it growth is at a scorching pace. The key drivers that will sustain this growth can be categorised as:

A. Consumer or Demand-side drivers
B. Retailer or Supply-side drivers

A. Consumers or demand-side drivers

1. Rising disposable income of Indian middle-class: The Indian middle-class can be categorised into seekers and strivers, which is the consuming class and the prime target segment for retailers in India. In 2005, these two categories together constituted around 6.4 per cent of total households in India but accounted for 20 per cent of the disposable income. By 2015, the middle class is expected to constitute around 25 per cent of total households and account for 44 per cent of the total disposable income, and by 2025, the respective figures are likely to go up to 46 per cent and 58 per cent.

The Indian middle-class population and their growing disposable income levels will drive the future growth of organised retail in India.

2. Personal consumption as a percentage of GDP: Personal consumption as a percentage of GDP India is second only to Vietnam in Asia and a close fourth globally. Robust growth of Indian economy will result in increase in personal consumption as a percentage of GDP. According to IMA, Asia, India had one of the highest personal consumption as a percentage of GDP in Asia at around 55 per cent in 2007. This portends well for Indian retail as with per capita income growing, this personal consumption would translate into higher retail sales.

3. Plastic money becoming a greater pie of credit: The higher penetration of credit cards in India has also boosted the growth of the organised retail sector; in fact, the young population’s increasing fancy for plastic money has further fuelled their purchasing power. Even though the organised retail sector is at a nascent stage, it is growing at a rapid pace. Moreover, the spurt in issuance of credit cards and loans by both Indian as well as foreign banks has further boosted the segment’s growth. According to the RBI, as on FY09, the total number of outstanding credit and debit cards in India was 24.7 million and 137.4 million respectively.
4. Internet drives awareness and online purchases: There has been a substantial increase in the number of Indians who use the Internet and a concomitant increase in the number of online purchases. Indians have started using the Internet not only for increasing awareness but also to shop online, which has opened a whole new channel of retailing in the Indian retail scenario. Online retailing offers consumers the convenience of ordering merchandise to their doorstep. Recently, Future Group, which owns Pantaloon, has initiated a measure to capitalise on the online opportunity through futurebazaar.com. A similar venture flipkart.com is also proving the new channel to be highly viable, especially since it eliminates the biggest cost of the physical store.

5. Population as a growth driver (increase in working population, spurt in urbanisation, rise in MPCE level in urban areas):

Increase in working population: India is the second-largest country in the world in terms of population, and is the largest consumer markets in the world owing to its favourable demographics. In 2008 India’s working population (in the 15-49 years age group) constituted around 53 per cent of the population as compared with 48.6 per cent in the UK, 49 per cent in the US, and 53 per cent in Russia.

Spurt in urbanisation: Historically cities and towns have been the driving force of overall economic and social development. Currently over 335 million people of India reside in cities and towns, which translates to around 30 per cent of the total population. The rapid growth in urbanisation has facilitated organised retailing in India, and has caused the speedy migration of population into major tier I and tier II cities, which have a significant share in the retail sales of the country. The urban population’s contribution in India’s GDP shot up from 29 per cent in 1951 to 60 per cent in 2001 and increased to 70 per cent in 2011, as migration to cities and towns grows rapidly in anticipation of higher income opportunities provided by these epicentres.

Moreover, the continuous development in urban areas has invariably attracted substantial inflows of capital both from domestic and foreign investments have led to the transition of urban areas. As the Indian organised retail is mainly concentrated in the urban areas, its growth (urban areas) is imperative for the organised retail in the country.

Rise in MPCE level in urban areas: The aggregate urban consumption in India has been growing steadily over the past few years as the economy has been continuously flourishing during this period, owing to a rise in urban population as well as a rapid per capita income growth. In FY05, 56 per cent of the urban population was below the MPCE level of Rs 930, while in FY07 the percentage of population under the MPCE level of Rs 930 decreased to 46.1 per cent.

B. Retailer or supply-side drivers

1. Increased investments in retail: Investments in the retail sector have improved since FDI has been allowed in single-brand and cash-and-carry formats. According to the Technopak estimates, investments in the organised retail will touch US$ 35 billion in the next five years or so. Investments allow organised players in retail to expand at a very high rate. All key retailers in India have expansion plans over the next 3-4 years; for instance, Pantaloon has an ambitious expansion plan to take its retail space up to 30 million
square feet by 2011. Likewise, Vishal Retail is expected to take its total store count to 500 with an estimated retail space of around 10 million square feet by 2011.

2. **Tier-II and III cities to fuel future growth of modern retail**: Initially the retail revolution began in the big tier I cities in India; however, as tier I cities are relatively saturated now, retailers, especially value retailers, are finding their way to smaller tier II and tier III cities as well. The changing landscape of the Indian retail segment and the increasing competition has also forced retailers to tap growth opportunities in tier II and III cities in India.

3. **Availability of quality real estate**: According to industry sources, mall space in India has grown from a meagre 1.0 million square feet in 2002 to about 57.3 million square feet by the end of 2008; tier I cities are expected to account for around 73 percent of the mall space and the rest is likely to be equally divided between tier II and tier III cities.

4. **Shortened supply chain benefits consumers**: A traditional supply chain in India comprises 5-6 levels from Wholesaler to Sub-Wholesaler to the Distributor to the local Mom and Pop stores to the Consumers. Two major disadvantages of this supply chain are as follows:
   - Cost of the product increases at every stage of the Supply Chain resulting in increase in the price of the products due to cascading effect.
   - Increase in shrinkage at every stage of the Supply Chain results in loss of goods for consumption.

**SWOT ANALYSIS OF INDIAN ORGANISED RETAIL**

**Strength**

- Skyscrapers with perfect blend of shopping, eating and entertainment, in short “shoppertainment”
- Developed in contemporary style, the flashy retail outlets promises just about everything under the sun, from foreign gizmos to the very desi
- Attractive destinations for civic and official meetings, hang out, reducing stress...
- Procure goods directly from factories and farmers in case of lifestyle and food/beverages respectively
- Bouquet of value propositions like value for time, value for quality, value for experience, value for money
- An added service to residential developments, and thereby an added attraction

**Weakness**

- Most of the Indian organised retail outlets are owned neither by retailers nor by the developers but by financial investors
- Retail not accredited as an industry
- Lack of adequate infrastructure including supply chain, parking facilities
• Unavailability and skyrocketing prices of prime catchment’s areas
• Poor positioning and zoning of retail outlets
• Shortage of qualified human personnel in the area of facility management, creative firms, and design houses
• Lack of differentiated offerings i.e. same mix of shopping, foods and films

Opportunities

• Tier II and Tier III cities are still untapped
• Outsourcing from other developed retail market
• Progressive growth of aspirational consumer class, believing more in spending than savings
• Nation of youth (with median age 24 and 35 per cent of population below 14 years)
• Growing urbanisation and increase in purchasing power of consumers
• Abundant availability of skilled labour
• Emergence of India as the retail hub
• Low cost of operations

Threats

• Non availability of adequate finance
• Market share of the unorganised retailers still ranges to 95 per cent and if not looked upon, might increase further.
• Keeping up brand loyalty
• Disturbance in income strata of consumers greatly influence retail outlets growth
• Threat from online players, (even though internet penetration is low in India
• Intrinsic complexities of retailing rapid price changes, constant threat of product etc.

FDI IN INDIAN ORGANISED RETAIL SECTOR

India continues to be among the most attractive countries for global retailers. But, India has kept the retail sector largely closed to outsiders to safeguard the livelihood of nearly 15 million small storeowners. Moving strategically, Indian government has gradually opens the door of retail sector to foreign competition. In 2006, FDI up to 51 per cent was permitted in Single-Brand Retailing. However, FDI in Multi-Brand retailing is prohibited in India. FDI in cash and carry wholesale trading was first permitted, to the extent of 100 per cent, under the Government approval route, in 1997. It was brought under the automatic route in 2006.

Foreign direct investment (FDI) inflows as on September 2009, in single-brand retail trading, stood at approximately US$ 47.43 million, according to the Department of Industrial Policy and Promotion (DIPP). Under the category of single brand retailing, an FDI inflow of US $ 194.69 million (Rs. 901.64 crore) was received between April, 2006 and March, 2010, comprising 0.21 per cent of the total FDI inflows during the period. Between April, 2000 to March, 2010, FDI inflows of US $ 1.779 billion (Rs. 7799 crore) were
received in the cash and carry wholesale trading. This comprised 1.54 per cent of the total FDI inflows received during the period.

The policy of permitting 51 per cent FDI in single-brand product retailing has led to the entry of only a few global brands such as Nike (footwear), Louis Vuitton (shoes, travel accessories, watches, ties, textiles ready-to wear), Lladro (porcelain goods), Fendi (luxury products), Damro (knock-down furniture), Argenterie Greggio (silverware, cutlery, traditional home accessories and gift items) and Toyota (retail trading of cars), into retail trading. Metro is already operating through the cash-and-carry wholesale mode. A 12-billion euro French luxury industry is also eyeing the domestic luxury segment to make a presence through retailing directly. In 1991, the Indian government introduced the economic policy to attract foreign investments and since then, it has amended the policy from time to time in various sectors to allow higher levels of foreign participation. The government policy in retail sector allows 100 percent foreign investment in wholesale cash-and-carry and single-brand retailing but prohibits investments in retail trading. In 1997, the government imposed restrictions on FDI in retail sector but in 2006, these were lifted and opened in single-brand retailing and in cash-and-carry formats.

The cash-and-carry business is the easiest mode of entry for foreign retailers into India. Many global players like Metro and Shoprite have already entered the market. Walmart has forged an alliance with Bharti for a cash-and-carry business, and Bharti is concentrating on front-end retail. Similarly, Tesco has entered India through an alliance with Trent (Tata Group). Apart from investing in the cash-and-carry business, Trent will also support the back-end activities of Trent Ltd. Many foreign brands have also entered India either through JVs with leading Indian retailers or through exclusive franchisees to set up shop in India. Louis Vuitton, Marks & Spencer Plc, GAS, Armani are some such operators who have entered India through JVs. McDonald’s, KFC, Domino’s are the retailers who have taken the franchise route.

FUTURE OF INDIAN RETAIL

Retail is clearly the sector that is poised to show the highest growth in the next five years. The sector is set for a revolution, as both the present players and new entrants are gearing up to explore the market.

“Many countries specially in south east Asia like Malaysia, Indonesia and Thailand have put in place regulations with a view to balance the conflicts of interest between modern retail and the traditional retailers and suppliers to modern retail. We hope to achieve the best interests of the Indian business through sustained efforts in this direction to make Indian retail truly competitive with global standards.”- Ajay Shankar, secretary, DIPP, Ministry of Commerce and Industry.

CONCLUSION

Retailing provides a crucial link between producers and consumers in modern market economy. Retail in India is most dynamic industry and represents a huge opportunity both for domestic and international retailers. Modern retailing is not threat to independent Mom and Pop stores as most of the consumers said that they never stopped visiting Kirana stores. They strongly agreed on coexistence of both is requirement of the day. Their frequency of going to kirana stores is reduced but its kind of opportunities for reorienting Mom and Pop stores for attracting more customers. So, organised retailing is beneficial for
India because it’s not alarming to create conflict with unorganized stores but reshaping unorganized stores into budding/nascent organised stores. Modern retailing has miles to go in India. The growth of modern formats has been much slower in India as compared to other countries and the development of this sector is restricted by the presence of regulatory and structural constraints.

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