
ASCENDANCY OF ORGANIZED RETAILING IN INDIAN RETAIL INDUSTRY

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ABSTRACT

The modern Indian consumer is seeking more value in terms of improved availability and quality, pleasant shopping environment, financing options, trial rooms for clothing products, return and exchange policies and competitive prices. This has created a rapidly growing opportunity for organized, modern retail formats to emerge in recent years and grow at a fast pace. **'The best way to predict the future is to create it.'** quotes the famous management personality'- Peter Drucker. This paper has tried to establish the truth in this quote by understanding the future of modern India with the creation of organized retailing segment in the country.

Key words: Retailing, Organized retailing, Indian retail Market

INTRODUCTION

The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, India retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With growing market demand, the industry is expected to grow at a pace of 25-30% annually. The India retail industry is expected to grow from ` 35,000 crore in 2004-05 to ` 109,000 crore by the year 2010.

INDIAN RETAIL INDUSTRY

The Indian retail sector is highly fragmented with more than 90 per cent of its business being carried out by traditional family run small stores. This provides immense opportunity for large scale retailers to set-up their operations – a slew of organized retail

formats like departmental stores, hypermarkets, supermarkets and specialty stores are swiftly replacing the traditional formats dramatically altering the retailing landscape in India. India is the third-most attractive retail market for global retailers among the 30 largest emerging markets, according to US consulting group AT Kearney's report published in June 2010.

According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, India retail industry is the most promising emerging market for investment. In 2007, the retail trade in India had a share of 8-10% in the GDP (Gross Domestic Product) of the country. In 2009, it rose to 12%. It is also expected to reach 22% by 2010. According to a report by Northbridge Capita, the India retail industry is expected to grow to US\$ 700 billion by 2010. By the same time, the organized sector will be 20% of the total market share. It can be mentioned here that, the share of organized sector in 2007 was 7.5% of the total retail market.

The retail industry in India is currently growing at a great pace and is expected to go up to US\$ 833 billion by the year 2013. It is further expected to reach US\$ 1.3 trillion by the year 2018 at a CAGR of 10%. As the country has got a high growth rates, the consumer spending has also gone up and is also expected to go up further in the future. In the last four year, the consumer spending in India climbed up to 75%. As a result, the India retail industry is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40%.

The prime reasons that fuelled this boom include

- Favourable demographics,
- Rising consumer incomes,
- Real estate developments,
- Especially the emergence of new shopping malls, availability of better sourcing options - both from within India and overseas - and
- Changing lifestyle.

Evolution and growth of Organized Retailing in India

Organized retail in India, today holds only a fraction (6%) of the market share potential in India. It has risen from ZERO to 6% in a very short period mainly on Volumes and not a value-driven growth. The Bazaar shopping concept has retained its identity and character while the modern-day shopping structures represent an inspired fusion of main street shopping along with community centric activity. Today we are re-visiting the Origin and History of Organized retailing in India. The emergence of organized retail in India dates back to the pre-independence era when the country's established business houses, mostly textile majors, ventured into the retail arena through company-owned or franchisee outlets. There were also exclusive tailoring shops, that ultimately expanded their span of operations to become leading regional fashion retailers - Mumbai's Charagh Din, Kolkata's Burlington, Delhi's Mohanlal Sons and Bangalore's PN Rao, to name a few. It is worth a mention that southern India took the lead to establish the first organized retail chains in the food and grocery (F&G) segment in India, with stores such as Nilgiri's, Foodworld, Margin Free, etc. The consumer durables segment too has its roots in the

south with regional players like Viveks, Giria's, Pai International, etc. **India's first 500,000 sq.ft. shopping centre** from Mangal Tirth Estate called **Spencer Plaza**, came up in Chennai in 1990.

Organised Retailing

In a sharp contrast to the retail sector in developed economies, retailing in India - though large in terms of size - is highly fragmented and unorganized. With close to 12 million retail outlets the country has one of the highest retail densities worldwide. Retailers include street vendors, supermarkets, department stores, restaurants, hotels and even two-wheeler and car showrooms. Counter stores, kiosks, street markets and vendors, where the ownership and management rest with one person, are classified as traditional or unorganised retail outlets. These formats typically require employees with low skills and account for around two-thirds of the sector's output. These are highly competitive outlets, with minimal rental costs (unregistered kiosks or traditional property), cheap labour (work is shared by family members) and negligible overheads and taxes.

The modern Indian consumer is seeking more value in terms of improved availability and quality, pleasant shopping environment, financing options, trial rooms for clothing products, return and exchange policies and competitive prices. This has created a rapidly growing opportunity for organized, modern retail formats to emerge in recent years and grow at a fast pace. Inefficiency in the existing supply chains presents further opportunity for organized players to draw on this large market even as lack of consumer culture and low purchasing power restricted the development of modern formats. Migration from unorganized to organized retail has been visible with economic development in most countries. The Indian organized retail industry is valued at about \$300 billion and is expected to grow to \$427 billion in 2010 and \$637 billion in 2015. Retail Market India today is the second fastest growing economy of the world after China. Indian economy will grow larger than Britain's by 2022, Japan by 2032 and by 2050 will become the second largest economy of the world after China. Indian market has become the most lucrative market for retail investment in the world. Some of the factors which have contributed to the growth of organized retail in India are: increase in the purchasing power of Indians, rapid urbanization, increase in the number of working women, large number of working young population.

Today people look for better quality product at cheap rate, better service, better ambience for shopping and better shopping experience. Organized retail promises to provide all these. The Industry The various formats of organized retail are: Hypermarkets: They store products of multiple brands comprising food items and non-food items. Supermarkets: These are self service stores selling food and personal care products. E.g.: Subhiksha. Departmental stores: Retailers branded goods in non-food categories. E.g.: Shoppers Stop. Specialty Chains : These stores focuses on a branded product or a product category. E.g.: Bata Convenience stores: These are small self service outlet located in crowded urban area. Malls: A huge enclosures which has different retail formats. e.g.: Nucleus Key players in organised retail are: Pantaloon Retail: It was started by Kishore Biyani- India's largest retailer. The various formats of pantaloon retail are: Pantaloons, Big Bazaar, Food Bazaar, Central etc. RPG Retail: Its various formats are: Food World, Music World, Health & Glow, Spencer's Tata Retail (known as TRENT): Its various

formats are: CromaWestsideStar India Bazaar K Raheja Corp. Group: Shoppers' Stop, Hypercity, Crossword, In Orbit Mall Reliance Retail Job Opportunities: Retail accounts for 8% employment in the country. In the next 2 years the sector is set to provide 2.5 lakh job opportunities.

Organized Retailing: Advantages to the Indian Economy

India's Planning Commission, in its *Approach Paper for the Eleventh Five Year Plan*, (2006, pp.27-8) has noted: "Organized retailing brings many advantages to producers and also to urban consumers, while also providing employment of a higher quality.

Agriculture

Organized retailing in agricultural produce can set up supply chains, give better prices to farmers for their produce and facilitate agro-processing industries. Modern retailing can bring in new technology and reduce consumer prices, thus stimulating demand and thereby providing more employment in production." Indian agriculture is in the midst of a grave crisis with its growth rate steadily falling to just 2.5 per cent per annum during 2000-07, as against an annual growth rate of 4.2 per cent during the 1980s and 3.2 per cent during the 1990s. Among the reasons for the secular downtrend of this sector are: (a) low level of investment in the sector of just below 2 per cent of GDP (*Economic Survey 2006-07*, p. 176) for the past decade and a half; (b) inability to bring a larger share of land under irrigation in the past ; (c) lack of any significant breakthrough in yields for the last few decades; and (d) the dismal state of rural infrastructure, such as power, roads, transport, marketing, etc. While the industrial and services sectors are largely free from the controls of the license raj, agriculture remains constrained by a series of restrictions from input supply and production to marketing and distribution. The problem in agriculture is reflected to a certain extent in the operation of the APMC Acts (Agriculture Produce Marketing Committees) in various states and union territories. The APMC Acts were originally intended to protect farmers from exploitation by intermediaries and traders by ensuring that they receive reasonable prices and timely payment. Over a period of time, the government regulated markets failed to function the way they were intended to and farmers felt exploited with a lack of transparency in the pricing, weighing bagging and payments for their produce. The various intermediaries in the system from the village trader, who acts as a consolidator, commission agent, wholesaler, sub-wholesaler, etc have been appropriating a large part of the final price in the form of margins and commissions. Organized retailers have already started procuring fruit and vegetables from farmers directly bypassing the various intermediaries who add more costs than value to the food chain. They are investing heavily on logistics in the form of centralized warehousing and distribution centres, transport and cold storage, either directly or through engaging third party logistics companies. They are also employing a large number of unskilled workers for sorting, grading, packaging and labelling. All these will enhance farmer's realizations, improve quality of products at the shop and reduce the ultimate consumer price. With regard to agriculture, organized retailing will work with farmers to: (i) improve yields by enabling them to obtain quality input supplies; (ii) adopt superior farm technology and practices; and (iii) access timely credit at reasonable rates. Organized retailing will offer the farmer an alternative market which is more transparent, and less time consuming. It will provide prompt payment, avoid margins for unproductive intermediaries, and ensure remunerative prices.

Manufacturing

The Planning Commission has identified four sectors as the major employment generating sectors for the Eleventh Plan period, 2007-12. They are: (i) food processing industry; (ii) textiles and clothing; (iii) tourism; and (iv) construction. Of these sectors, all except tourism are getting a fillip with the growth of organized retail. Currently, both the food-processing and textile industries are lagging behind. It is particularly the small and medium industry (SMI) sector which will gain advantages with the emergence of organized retailers by becoming their suppliers. Modern retail will catalyze the development of the SMI sector in the country. As regards manufacturing, SMIs particularly in food-processing, textiles and clothing will get a tremendous boost by producing for the big organized retail companies and will grow along with the organized retail business. The tie-up with organized retail will drive these industries to become more efficient in order to meet the stringent delivery conditions of the retail market. Private labelling is the creation of brands in the name of modern retailers. It has already begun in India in the food and grocery, and apparel segments and is expected to expand rapidly. Small-scale manufacturers will be the major beneficiaries of private labels. In short, organized retailing will remove various inefficiencies that characterize the present Indian distribution system, which in turn will provide better price for the farmers and suppliers on the one hand, and lower prices for consumers, on the other.

Exports

Organized retail's link with exports comes through foreign players. International retailers look for sources around the world and a country in which they operate becomes a source for their global sales. Some of the international retailers that have plans for India in the future have already developed suppliers in the country and have started exporting from India. For example, Wal-Mart exported an equivalent of US\$ 600 million, and IKEA about 380 million Euros from India in 2006-07.

Growth and Productivity

Organized retail has the potential to lift the Indian economy to higher levels of productivity and growth. In the context of the United States, a McKinsey Global Institute study indicated a contribution by the retail sector of nearly one-fourth of the rise in productivity growth from 1987-95 to 1995-99. In India, organized retail will raise productivity and growth by pulling up the current lagging sectors, such as agriculture, food-processing industry, and textiles. Besides, in order to meet the rapidly growing demand for retail space, construction of real estate is taking place at a fast pace. It is interesting to note that construction has been one of the fastest-growing segments of India's GDP in recent years, recording an average annual real growth of about 13 per cent during 2003-07. An important point to be noted is that while the jobs that organized retail displaces are the low-end, low-quality, underproductive ones, the new jobs created are the high quality, productive ones. It also generates a number of jobs for unskilled labour for the tasks of sorting, grading, labelling, etc.

Impact on Employment and Prices

Employment in India is distributed in a skewed manner towards agriculture. Though the share of agriculture (including forestry and fishing) in GDP came down from 28.9 per cent in 1993-94 to 18.8 per cent in 2004-05, its share in employment remained huge, coming down gradually from 61 per cent to 52.1 per cent during the same period. The strength of workforce engaged in agriculture had been about 201 million in 2004-05. This is, in fact, a reflection of the lack of employment opportunities in the non-agricultural sectors. The industry's share in employment went up from 15.9 per cent in 2003-04 to 19.4 per cent in 2004-05 which is somewhat better than the rise in its share in GDP from 25.9 to 27.5 per cent during the same period. The share of services in GDP rose sharply from 45.2 per cent in 1993-94 to 53.7 per cent in 2004-05 but its share in employment grew somewhat slowly from 23.1 per cent to 28.5 per cent during the same period. Within the services sector, the share of trade (both retail and wholesale included) in GDP rose from 11.9 per cent in 1993-94 to 14.9 per cent in 2004-05, but its share in employment grew marginally from 7.7 per cent to 8.4 per cent during the same period. The trade sector, particularly retail, is predominantly the unorganized "mom-and-pop" shops.

The growth of organized retail will enhance the employment potential of the Indian economy. While providing direct employment in retail, it will drive the growth of a number of activities in the economy which in turn will open up employment opportunities to several people. This includes the small manufacturing sector especially food-processing, textiles and apparel, construction, packing, IT, transport, cold chain, and other infrastructure. It may adversely affect employment in unorganized retail and the trade intermediaries associated with the traditional supply channels but the additional jobs created will be much higher than those that are lost.

Organized retail's direct purchase from farmers and other suppliers compresses the supply chain and eliminates a large number of intermediaries and hence can offer consumers a lower price than the traditional channels. This has a subduing effect on inflation in the economy. Besides inflation, high volatility of prices of certain essential commodities, such as onions, sugar, tomatoes is an essential feature of the Indian economy. The spread of retail can mitigate price volatility of essential commodities by making them available throughout the year.

Improvement of Government Revenues

Another significant advantage of organized retailing is its contribution to government revenues. Unorganized retailers normally do not pay taxes and most of them are not even registered for sales tax, VAT, or income tax. Organized retailers, by contrast, are corporate entities and hence file tax returns regularly. The growth of organized retail business will be associated with a steady rise in tax receipts for the central, state, and local governments. The growth of organized retail will enhance the employment potential of the Indian economy. While providing direct employment in retail, it will drive the growth of a number of activities in the economy which in turn will open up employment opportunities to several people. This includes the small manufacturing sector especially food-processing, textiles and apparel, construction, packing, IT, transport, cold chain, and other infrastructure. It may adversely affect employment in unorganized retail and the trade intermediaries associated with the traditional supply channels but the additional jobs created will be much higher than those that are lost. An important point to be noted is that while the jobs that organized retail displaces

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CONCLUSION

In this paper it is established that the growth of modern retailing i.e. the organized retailing in India has tremendous impact on the country. The growth of organized retailing has led to the growth of the country in aspects of agriculture, manufacturing, exports, increase in the revenue of the government. Hence it could be concluded with the statement that in future it lead to more prosperity and development of the country.

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