

INDIAN RETAIL INDUSTRY

- ITS GROWTH, CHALLENGES AND
OPPORTUNITIES



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Indian Retail Industry - Its Growth, Challenges And Opportunities

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Abstract

This paper provides detailed information about the growth of retailing industry in India. It examines the growing awareness and brand consciousness among people across different socio-economic classes in India and how the urban and semi-urban retail markets are witnessing significant growth. It explores the role of the Government of India in the industry's growth and the need for further reforms. In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. The paper includes growth of retail sector in India, strategies, strength and opportunities of retail stores, retail format in India, recent trends, and opportunities and challenges. This paper concludes with the likely impact of the entry of global players into the Indian retailing industry. It also highlights the challenges faced by the industry in near future.

INTRODUCTION

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retailing has entered into the Retail market in India as is observed in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof.

A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector are going to be the key factors in the growth of the organized Retail sector in India. The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the India Retail Industry.

In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. Indian retail is expected to grow 25 per cent annually. Modern retail in India could be worth US\$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US\$ 16.7 billion

business, growing at over 20 per cent per year. The future of the India Retail Industry looks promising with the growing of the market, with the government policies becoming more favorable and the emerging technologies facilitating operations.

THE INDIAN RETAIL SCENE

India is the country having the most unorganized retail market. Traditionally it is a family's livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99% retailer's function in less than 500 square feet of shopping space. Global retail consultants KSA Technopak have estimated that organized retailing in India is expected to touch Rs 35,000 crore in the year 2005-06. The Indian retail sector is estimated at around Rs 900,000 crore, of which the organized sector accounts for a mere 2 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer.

Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention to the brand building process. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself. In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy.

There is no doubt that the Indian retail scene is booming. A number of large corporate houses — Tata's, Raheja's, Piramals's, Goenka's — have already made their foray into this arena, with beauty and health stores, supermarkets, self-service music stores, newage book stores, every-day-low-price stores, computers and peripherals stores, office equipment stores and home/building construction stores. Today the organized players have attacked every retail category. The Indian retail scene has witnessed too many players in too short a time, crowding several categories without looking at their core competencies, or having a well thought out branding strategy.

STRATEGIES, TRENDS AND OPPORTUNITIES 2007

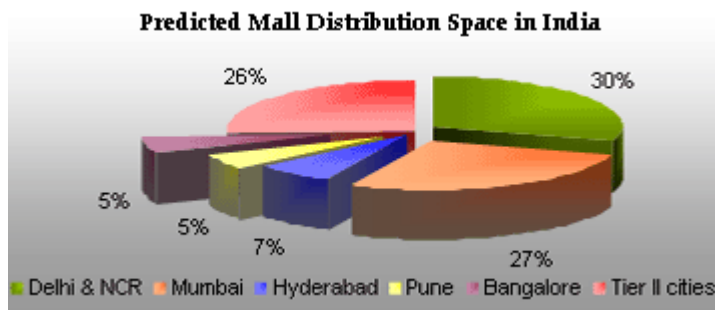
Retailing in India is gradually inching its way toward becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retail has entered India as seen in sprawling shopping centres, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof. 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 median age of 24 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector are going to be the key growth drivers of the organized retail sector in India.

GROWTH OF RETAIL SECTOR IN INDIA

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.

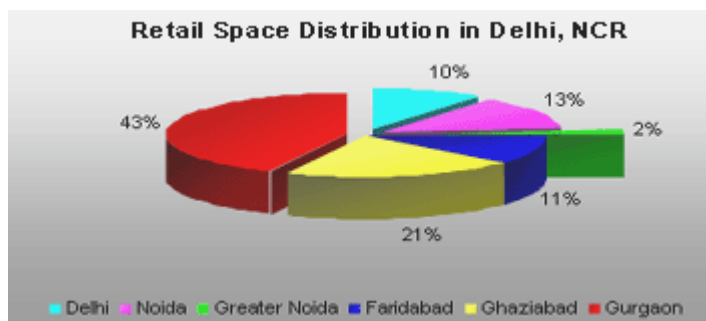
As the contemporary retail sector in India is reflected in sprawling shopping centers, multiplex-malls and huge complexes offer shopping, entertainment and food all under one roof, the concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping 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 (CHART)



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 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.

INDUSTRY EVOLUTION

- Traditionally retailing in India can be traced to
- The emergence of the neighborhood 'Kirana' stores catering to the convenience of the consumers
- Era of government support for rural retail: Indigenous franchise model of store chains run by Khadi & Village Industries Commission
- 1980s experienced slow change as India began to open up economy.
- Textiles sector with companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim first saw the emergence of retail chains
- Later Titan successfully created an organized retailing concept and established a series of showrooms for its premium watches
- The latter half of the 1990s saw a fresh wave of entrants with a shift from Manufactures to Pure Retailers.
- For e.g. Food World, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword and Fountainhead in books.
- Post 1995 onwards saw an emergence of shopping centers,
- Mainly in urban areas, with facilities like car parking
- Targeted to provide a complete destination experience for all segments of society
- Emergence of hyper and super markets trying to provide customer with 3 V's - Value, Variety and Volume
- Expanding target consumer segment: The Sachet revolution - example of reaching to the bottom of the pyramid.
- At year end of 2000 the size of the Indian organized retail industry is estimated at Rs. 13,000 crore

RETAILING FORMAT IN INDIA

Malls:

The largest form of organized retailing today. Located mainly in metro cities, in proximity to urban outskirts. Ranges from 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Piramyd, and Pantaloon.

Specialty Stores:

Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

Discount Stores:

As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non-perishable goods

Department Stores:

Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. Further classified into localized departments such as clothing, toys, home, groceries, etc.

Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India and even has its own in store brand for clothes called Stop.

Hyper marts/Supermarkets:

Large self-service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified in to mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from of 3,500 sq ft to 5,000 sq ft. having a strong focus on food & grocery and personal sales.

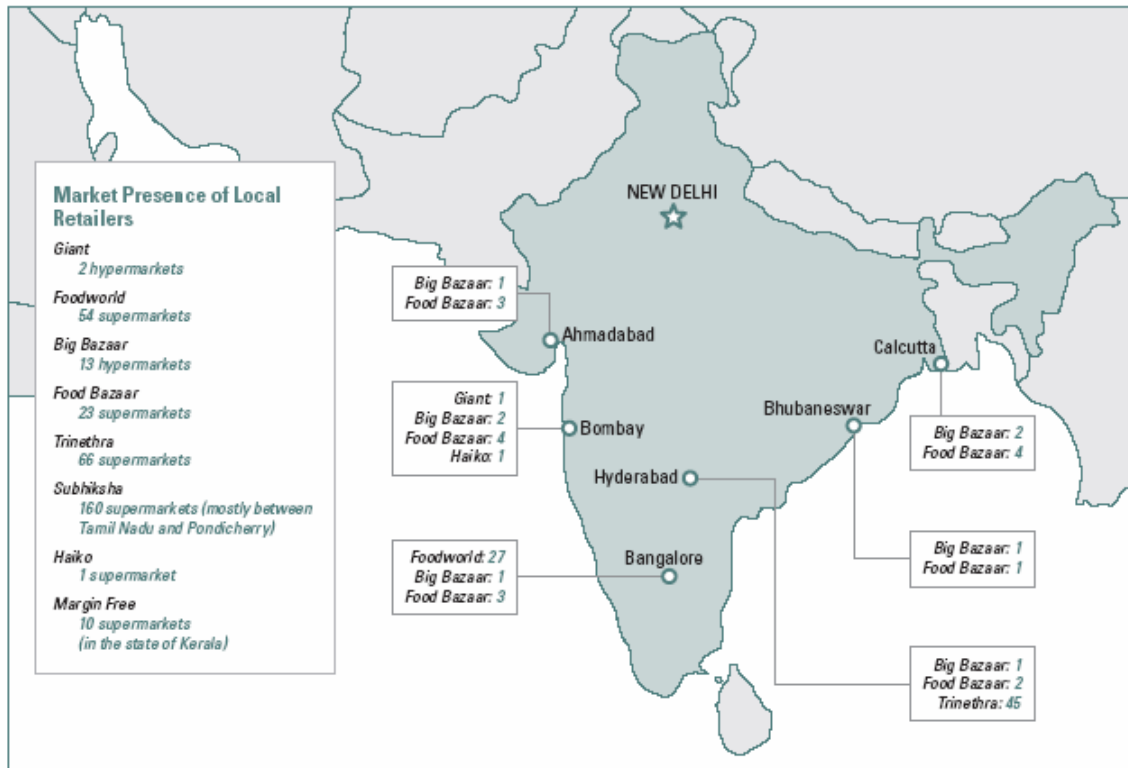
Convenience Stores:

These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium

MBO's:

Multi Brand outlets, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros.

INDIA'S NUMBER OF DOMESTIC GROCERY CHAINS AND EARLY FOREIGN ENTRANTS



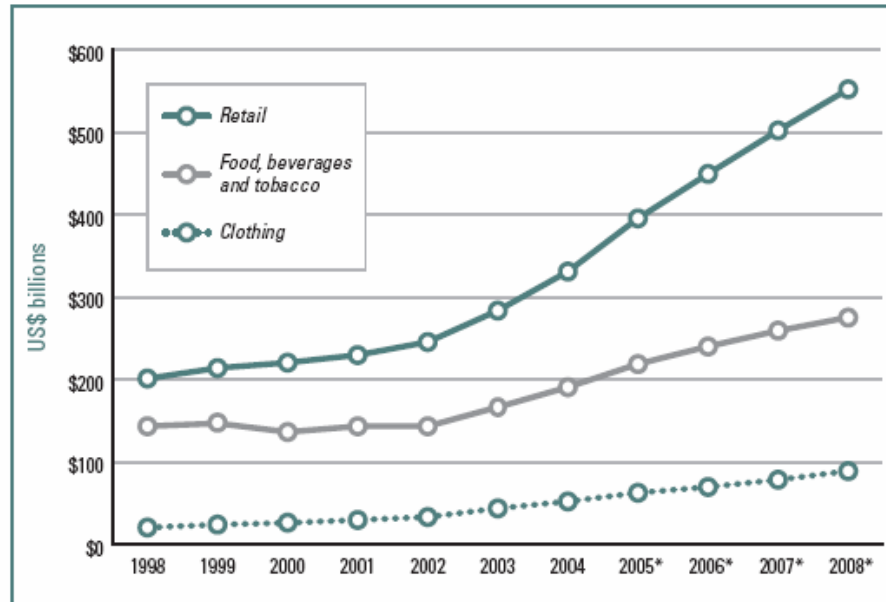
Source: A.T. Kearney

RECENT TRENDS

- Retailing in India is witnessing a huge revamping exercise as can be seen in the graph
- India is rated the fifth most attractive emerging retail market: a potential goldmine.
- Estimated to be US\$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 percent or US\$ 6.4 billion
- As per a report by KPMG the annual growth of department stores is estimated at 24%
- Ranked second in a Global Retail Development Index of 30 developing countries drawn up by AT Kearney.
- Multiple drivers leading to a consumption boom:
 - Favorable demographics
 - Growth in income
 - Increasing population of women
 - Raising aspirations: Value added goods sales
- Food and apparel retailing key drivers of growth
- Organized retailing in India has been largely an urban phenomenon with affluent classes and growing number of double-income households.
- More successful in cities in the south and west of India. Reasons range from differences in consumer buying behavior to cost of real estate and taxation laws.
- Rural markets emerging as a huge opportunity for retailers reflected in the share of the rural market across most categories of consumption
 - ITC is experimenting with retailing through its e-Choupal and Choupal Sagar – rural hypermarkets.
 - HLL is using its Project Shakti initiative – leveraging women self-help groups – to explore the rural market.

- Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets.
- IT is a tool that has been used by retailers ranging from Amazon.com to eBay to radically change buying behavior across the globe.
- 'E-tailing' slowly making its presence felt.

RETAIL SALES IN INDIA



Sources: Economist Intelligence Unit and A.T. Kearney analysis

*Data for 2005-2008 is based on estimates

CHALLENGES & OPPORTUNITIES

Retailing has seen such a transformation over the past decade that its very definition has undergone a sea change. No longer can a manufacturer rely on sales to take place by ensuring mere availability of his product. Today, retailing is about so much more than mere merchandising. It's about casting customers in a story, reflecting their desires and aspirations, and forging long-lasting relationships. As the Indian consumer evolves they expect more and more at each and every time when they step into a store. Retail today has changed from selling a product or a service to selling a hope, an aspiration and above all an experience that a consumer would like to repeat.

For manufacturers and service providers the emerging opportunities in urban markets seem to lie in capturing and delivering better value to the customers through retail. For instance, in Chennai CavinKare's LimeLite, Marico's Kaya Skin Clinic and Apollo Hospital's Apollo Pharmacies are examples, to name a few, where manufacturers/service providers combine their own manufactured products and services with those of others to generate value hitherto unknown. The last mile connect seems to be increasingly lively and experiential. Also, manufacturers and service providers face an exploding rural market yet only marginally tapped due to difficulties in rural retailing. Only innovative concepts and models may survive the test of time and investments. However, manufacturers and service providers will also increasingly face a host of specialist retailers, who are characterized by use of modern management techniques, backed with seemingly unlimited financial resources. Organized retail appears inevitable.

Retailing in India is currently estimated to be a US\$ 200 billion industry, of which organized retailing makes up a paltry 3 percent or US\$ 6.4 billion. By 2010, organized retail is projected to reach US\$ 23 billion. For retail industry in India, things have never looked better and brighter. Challenges to the manufacturers and service providers would abound when market power shifts to organized retail.

CONCLUSION

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

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