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ORGANISED RETAILING IN INDIA: CHALLENGES AHEAD

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Introduction

India is in an amazing situation right now. The economy is growing very well and organised retailing is booming with bigger players, both global and home-grown, entering the market. A revolution is set to sweep across the country in the next three-to-five years, as traditional markets make way for departmental stores, hypermarkets and western-style malls. While penetration of organized retail in India remains slightly below 4%, domestic major retail players have announced aggressive expansion plans even as a plethora of new flashy malls are mushrooming in metros and second rung cities.

The organized retail industry is estimated at over \$7 billion and is slated to grow to \$30 billion over the next four years. There is a reason for this retail rush. In the retail sector, the turnover is two times that of assets. Even with net profit margins of only 4% , the returns on investment is 16-18%. Besides, India's vast middle class and its almost untapped retail industry are key attractions for global retail giants wanting to enter newer markets.

The current state of the Indian retail sector is primitive compared to the rest of the world. Modernisation of this sector represents a significant opportunity for Indian entrepreneurs. But the journey of this segment is not easy. Of course, there are challenges ahead, like rentals, manpower, supply-chain, inventory management, taxation system and back-end organization. Indian retailing is clearly today at a tipping point.

Objectives of the Study

The main objectives of this study are :

- To throw light on the present scenario of organized retailing in India.
- To analyze the challenges ahead for organized retailing in India.

Organized Retail Scene in India

Change is inevitable and it applies to retailing concept and infrastructure in the country. During the last few years, a wave of new formats had surged onto the retail space of India mingling with the traditional formats and sometimes replacing them. In the process of further transformation, Indian retail has today new appearance and greater range of activities and facilities. Interestingly, this revolutionary change and people's lifestyle have a reciprocal relation of one influencing the other.

Organised retailing has been adopted in a large number of Indian cities with many business houses investing in this segment. The organized sector, which began with lifestyle retailing, has now moved on to value retailing as well.

• Players in Organized Retailing

Retail wars in India have officially begun. **Table- 1** shows major retailers, their format and status.

• Growth of Organised Retail Sector

The organized retail industry is estimated at over \$ 7 billion and is slated to grow to \$ 30 billion over the next four years **Table -2**.

Organised Retailers' Store Locations

Forty percent of organized retail stores are located in tier 1 cities, 59% in tier 2 cities and 1% in tier 3 cities. (**Table- 3**).

- **Location-wise Contribution**

The contribution of smaller cities to total organized retailing sales was 15 per cent in 2005 and was expected to grow to 25 per cent by the end of 2006. Organised retailing in small town India is growing at 50 to 60 per cent a year compared to 35 to 40 per cent in the large cities. The striking point is that it is the big names in the organized retail business that are eyeing these new opportunities.

The Challenges

The journey of organized retailing in India is not free from road blocks. Major barriers are discussed below.

Manpower Management

Managing manpower will be the toughest challenge for organized retail players in this fast-growing and intensely competitive industry. The retail industry is booming and with an expected Compounded Average Growth Rate (CAGR) of 30-35% for the next few years, finding expert manpower, especially at the senior and middle management levels, will be a difficult task. A study on domestic retail sector by Enam estimates that 5-6 lakh employees will be needed in the organized retail sector (**Table- 4**).

- **Space Jam**

With some 350 – odd malls expected to come up in the next three years, availability of retail space is another major area of concern. New malls are springing up in the country every other day. If the expansion drives of new entrants go as per plans, the total operational retail space will touch around 100 million sq.ft. by 2008 with about 500 malls across the country. However, availability of land and rising rentals could come in the way of retailers' mega plans. **Table -5** represents the occupied and needed space till 2010.

- **Lack of Adequate Infrastructure**

There is a lack of storage equipment such as racks, fixtures and shelves. Lack of adequacy of infrastructure in terms of supply chain and logistics is a big challenge for organized retailing in India. Logistics, which is a very fragmented market today, is going through consolidation stage. There is going to be a major change. Players are forced to set up their own infrastructure, as there are few independent logistics solution providers. Entrepreneurs who could invest in infrastructure development for different stages of the supply chain are also limited.

- **Lack of a Uniform Tax System**

The country requires a uniform tax system for organized retailing. The lack of uniform tax system stands as an obstruction to the setting up of a truly national chain. The present chains, in spite of claiming to be national chains, are restricted to certain regions of the country. Players working in 28 states face 28 types of legislation and are confined to state barriers. Since retailing is essentially a business of supplying commodities to locations far from production units, a different tax system in different states is surely turning to be a hindrance to faster development of this industry.

- **Dominance of the Unorganised Sector**

The unorganized sector has dominance over the organized sector in India, specially because of the low investment needs. In India, organized retailing is only 2% of total retailing worth \$ 180 billion. This is playing at multiple levels. For instance, the reason for low number of discount stores in India is an effect of the dominance of the unorganized sector. The manufacturers have high bargaining power in the pricing of products due to this small scale of operation of retailers. The lobbying by the unorganized sector is also the main reason for the Government of India's

restrictions on 100% FDI in retailing in the country.

- **Low Operational Size**

The number of retail outlets in India is more than the number of outlets in most of the other countries. Small size retail outlets dominate the Indian scene. 96% of the outlets are lesser than 500 sq.ft. The retail chains of India are also smaller than those in the developed countries. For instance, the superstore food chain, Food World, is having only 52 outlets whereas Carrefour-Promodes' has 8800 stores in 26 countries. The volume of sales in Indian retailing is very low, which is only \$180 billion. Even the largest players have a turnover of only \$140 million which is very small by the global standards. India, with the second largest population in the world and fast growing economy, has huge untapped potential of organized retailing which is not given its due weightage by the government.

- **Government Restrictions on FDI**

Organised retailing in India is yet to get an industry status. The consequence is quite obvious. 100% FDI is not permitted in retailing in India. Without the FDI, the sector is deprived of access to foreign technology that is imperative for faster growth. Retailing is a 'technology-intensive' industry. Under the liberalized regime of the WTO, the 'Protected Nature' of an industry may do more harm than good. In the short-run, the Government may succeed in protecting the domestic industry but in the long run we would be losing too many opportunities and technological innovations. This, in addition, would also block any attempt by the domestic industry to become competitive internationally.

- **Political and Emotional Issue**

The unorganized Indian retail sector has been in existence for centuries. With the coming of the new organized retail format –

irrespective of whether it is domestic or foreign – the neighbourhood retailers have become anxious about their very existence. Now, this issue has become cause of concern to policy makers as well, who are worried about the economic and political consequences of small retailers being forced to shut shop. Voices against organized retailing are coming from wholesalers and small retailers across the country. The leftists have clearly articulated their objection to organized retailing stating that it fails the three tests that are germane to the issue – whether the investment augments productive capacity, leads to upgradation of technology and generates employment.

Suggestions

Some suggestions are given to deal with the multi-dimensional challenges.

- A central tax system becomes more imperative in a country like India where the regional disparity in production of commodities is high. Government should introduce uniform taxation all over the country to replace the laws that are restricting the inter-state flow of goods.
- Government should consider providing incentives and amending labour laws etc. Shortage and high cost of real estate, tenancy legislation and high property tax etc. are other areas to be reviewed by the Government. Government should modify such laws and make property available at reasonable prices. Government should introduce a Single Window System at the local government level to clear the multiple number of licences and complex regulations.
- The big challenge for the Indian retailing industry is the heterogeneity of the market. Therefore, retailers should be able to predict where and what consumers will spend the highest share of their wallet

and use this last leg of the economic chain to build India.

- Every country goes through a demographic boom when a majority of the population enters the earning and spending bracket. India is currently going through this and we should utilise it to help the country to grow rather than gift – wrap it and allow others to grow their revenues, profits and market capitalization. If, with organized retail at 3%, India is attractive, at 10% it will be more so. Hence Indian retailers must be allowed first to gain size for preparing a level playing field and then market should be opened for foreign players in a phased manner.
- Significant investment in restructuring of the supply chain management should be done.
- Small Indian retailers should be convinced properly that organized retailing will not prove to be a threat to them. They can get a large benefit by reconfiguring their business model, reinventing themselves, adopting the concept of franchising as their new way forward and thus can keep up with the dynamics of a changed landscape.

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Table - 1
Players in Organised Retail Sector

Retailer	Format	Status
J.C. Penny	Multi-Format	Evaluating
Reliance	Multi-Format	Already in
Tesco	Multi-Format	Evaluating
Woolsworth	Specialised stores	J.V.with Tata's infinity retail
Wal-Mart	Hypermarket	50:50JV with Bharati
Marks & Spencer	Single Brand Store	Franchise
Espirit	Specialised stores	Franchise
Landmark Group	Lifestyle stores	NRI/OCB route
Carrefour	Multi-Format	Awaiting Approval

Source : ET Survey / Enam

Table - 2
Growth of Organised Retail Sector

	2005	2006	2007	2008	2009	2010
Retail Sales	215.3	226	241.8	259.3	278.7	300
Organised Retail	7.3	7.8	121	18.2	22.3	30

(Billion \$) Source : Enam Securities

Table - 3
Organised Retailers Store Locations

Cities	Percentage
Tier 1	40
Tier 2	59
Tier 3	1

Table - 4 : Expected Retail Headcount

Company	Headcount 2010 E*
Reliance	2.0
Pantaloon	1.0
Bharti-Wal-Mart	0.6
A B Group	0.5
Shoppers' Stop	0.2
Trent	0.1
Total Organised Sector jobs	6.0

(Lakh)* Rough Estimates Source : Enam Securities/ETIG Analysis

Table -5
Occupied and Needed Space of Retail Sector

	As on Dec.06*	FY 20 10
Pantaloon	3.4	30
Shoppers' stop	1.06	5 – 6
Trent	0.6	1.5 – 2
Reliance	N.A.	100
A B Group	N.A.	12 – 15
Bharti	N.A.	15 – 18
Provogue	0.1	1.5
Max Retail	0.12	1
Brand House (S Kumars)	0.053	0.2
Spencers (RPG)	0.5	1

*(Million Sq.ft.)

Source : ET Survey