



## **A CONCEPTUAL STUDY OF BOOMING RETAIL SECTOR- OPPORTUNITIES AND CHALLENGES IN INDIAN SCENARIO**

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### **Abstract:**

*India is one of the fastest growing retail markets in the world and emerging as one of the largest sector in the economy. It comprise of both organised and unorganised retail sectors. The Indian retail market is estimated to the worth of US\$ 600 billion by considering the economic value hence it has become one of the top five retail markets in the world comprising 35% of GDP. The organized or modern retailing with 6% share stands at \$26 billion and projected to reach US\$ 1.3 trillion by 2018 at the compounded annual growth rate of 40%. This sector is in transition phase along with "shift" or "change" as factors for its success and sustainability. Retail marketing also provides immense significant opportunities to retailers and brands across the country because of change in the consumer behaviour, rising Job opportunities, income and consumer awareness. And growing middle class is one of the contributing factors of retail sector. Hence this paper explores on changing trends in retail formats, challenges faced by the organised and unorganised sector and future opportunities of retail industry.*

**Index Terms:** Retail Market, Unorganised Sector, Retail Industry, Challenges & Opportunities

### **1. Introduction:**

Retail Industry is the largest among all the other industries in India, which contributes almost 10% of India's GDP, and employs almost 8% of India's employable population in this field showing gradually inching its way towards becoming the next boom industry. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries which attracts several players entering the market. But all of them have not yet succeeded because of the heavy initial investments that are required to compete with rival companies. Retail Industry is not only an essential part of our economic structure but also mould our lifestyle. Rama Subramaniam the former head - retail segment Sponsors described a successful retailer as a "merchant who sells goods that won't come back to customers who will". Thus the retailer performs the role of fulfilling the desire of customer as well as producers. The concept of retailing and idea of shopping has undergone drastic change in terms of retail format and consumer pattern of buying behavior, bringing in a revolution in shopping in India.

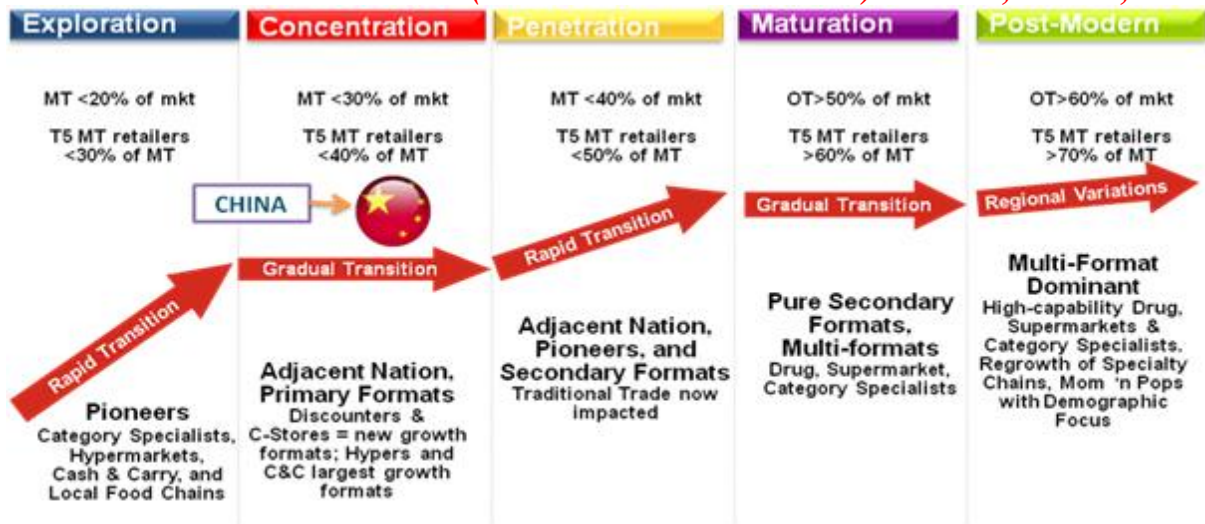
### **2. Objectives of the Study:**

- ✓ To study the development and changing trends in Retail formats.
- ✓ To know the challenges faced by organised and unorganised retail sectors and future opportunities of the retail sector

### **Evolution of Retail Sector:**

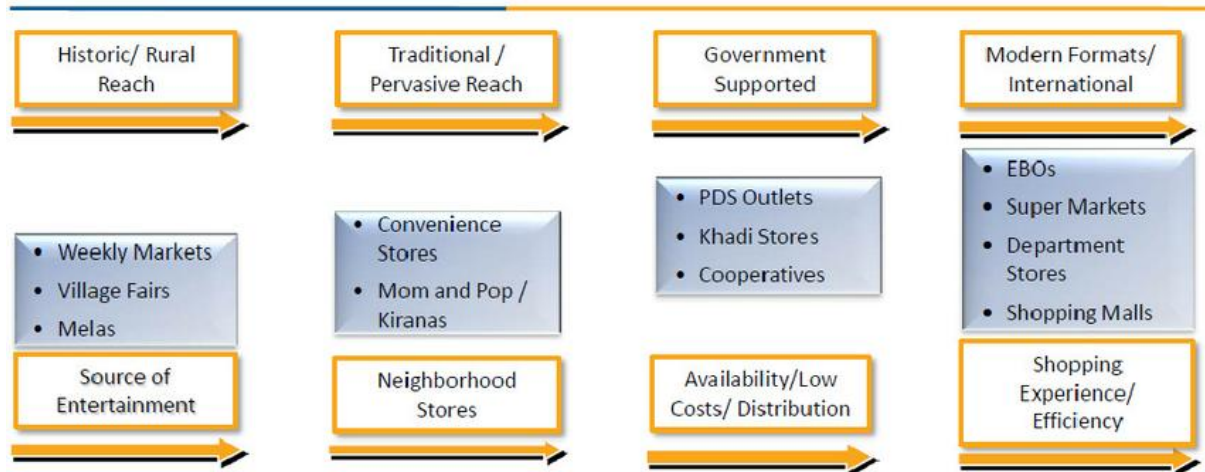
The trends that are driving the growth of the retail sector in India are

- ✓ Low share of organized retailing
- ✓ Falling in real estate prices
- ✓ Increase in middle class disposable income and customer aspiration



Source: Kantar Retail Market Evolution Model (source Kantar Retail Analysis).

## Evolution of Indian Retail



### 3. Major Retail Formats:

Retail formats in India categorised into

**Store Retailing:** According to Finn & Louviere, (1996), stores are categorized by product strategy as general-line and limited-line retailers. Department stores, discount stores, and membership warehouses are characterized as general-line retailers.

**Non-Store Retailing:** A large majority - about - 80% - of retail transactions are made in stores. However, a growing volume of sales is taking place away from stores. Retailing activities resulting in transactions that occur away from a physical store are called non-store retailing. It is estimated that non-store sales account for almost 20% of total retail trade. A direct relationship of the retailer with his customer is on the basis of non-store Retailing. In India around twenty percent of retail sale is from non-store. The proportion of non store is growing steadily. In detail retail formats are

**Hyper Marts/Supermarkets:** These are large, self service stores that carry a broad and complete line of food and non-food products. They have central check out facilities. Kotler defines supermarket as 'a departmentalised retail establishment having four basic department viz. self-service grocery, meat, produce and diary plus other household departments, and doing a maximum business. It may be entirely owner operated or have some of the departments leased on a concession basis.

**Mom-and-Pop Stores:** They are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.

**Departmental Stores:** Are general retail merchandisers offering quality products and services these are large scale retail stores selling less than one roof and one control a variety of goods divided into different departments, each of which specializes in an individual merchandise. Converse is of the opinion that a department store is a retail shop handling several classes of goods including fast moving consumer goods, each class being separated from others in management, accounting and location. It is viewed by Clarke as that type of retail institution which handle a wide verity of merchandise under one roof which the merchandise grouped into well-defined departments which is centrally controlled and which caters primarily to women shoppers. Thus a department store is a retailing business unit that handles a wide variety of shopping and specialty goods and is organized into separate departments for purposes of sales promotion, accounting control and store operation.

**Convenience Stores:** Are located in residential areas with slightly higher prices goods due to the convenience offered. Such stores enable the customers to make quick purchase and offer them few services. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day; Prices are slightly higher due to the convenience premium.

**Shopping Malls:** The biggest form of retail in India, malls offers customers a mix of all types of products and services including entertainment and food under a single roof. A chain store system consists of four or more stores which carry the same kind of merchandise are centrally owned and managed and usually are supplied from one or more central warehouses. A chain store is one of the retail units in chain store system. Chains have been interpreted as a group of two or more reasonably similar stores in the same kind or field of business under one ownership and management, merchandised wholly or largely from central merchandising head quarters and supplied from the manufacturer or orders placed by the central buyers.

**E-Retailers:** Are retailers providing online buying and selling of products and services. When a firm uses its website to offer products for sale and then individuals or organisations use their computers to make purchases from this company, the parties have engaged in electronic transactions (also called on line selling or internet marketing). Many electronic transactions involve two businesses which focus on sales by firms to ultimate consumers. Thus online retailing is one which consists of electronic transactions in which the purchaser is an ultimate consumer.

**Discount Stores:** These are factory outlets that give discount on the MRP. These are large stores, freely open to the public and advertising widely. They are self-service and general merchandising stores. They carry a wide assortment of products of well known brands, appliances, house wares, home furnishings, sporting goods, clothing, toy and automotive services. They complete on low price basis and operate on a relatively low mark-up and a minimum number of customer services. They range from small open showroom to catalogue type order offices to full line limited service, and promotional stores. They buy their merchandise stocks both from wholesale distributors and directly from manufacturers.

**Vending:** It is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machines.

**Category Killers:** Small specialty stores that offer a variety of categories to the customers. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets or MBO's.

**Specialty Stores:** Are retail chains dealing in specific categories and provide deep assortment. Mumbai's Crossword Book Store and RPG's Music World are a couple of examples. Classified into store retailing and non-store retailing

**Direct Selling:** In the context of retailing, direct selling is defined as personal contact between a sales person and a consumer away from a retail store. This type of retailing has also been called in home selling. Annual volume of direct selling in India is growing fast from the beginning of the 21st century.

**Telemarketing:** Sometimes called telephone selling, telemarketing refers to a sales person initiating contact with a shopper and closing a sale over the telephone. Telemarketing many entail cold canvassing from the phone directory. Many products that can be bought without being seen are sold over the telephone.

#### 4. SWOT analysis of Retail Industry in India:

<b>Strengths:</b>	<b>Weaknesses:</b>
1) Organized retailing at US\$ 3.31 billion, growing at 8%. 2) 2nd largest contributor to GDP after Agriculture at 20%. 3) Pattern of consumption changing along with shopping trends. 4) Consumer spending increasing at 11% Annually. 5) Almost 25 million sq. ft. retail space available. 6) Paradigm shift in shopping experience for consumers pulling in more people.	1) Shortage of quality retail spaces at affordable rates. 2) Government regulations on development of real estate (Urban Land Ceiling Act) 3) Need to provide Value for Money-squeezing margins 4) Lack of industry status. 5) Retail revolution restricted to 250 million people due to monolithic urban-rural divide. 6) Lack of huge investments for expansion
<b>Opportunities:</b>	<b>Threats:</b>
1) Increasing urban population-more participants in retail revolution. 2) Increase in consuming middle class Population. 3) Social factors, like dual household income has enhanced spending power. 4) Spends moving towards lifestyle products and esteem enhancing products. 5) Average grocery spends at 42% of monthly spends-presents a huge opportunity. 6) Increase in use of credit cards.	1) Rising lease/rental costs affecting project Viability. 2) Poor monsoons and low GDP Growth could affect consumer spending drastically. 3) Archaic labour laws are a hindrance to providing 24/7 shopping experience. 4) Personalized service offered by Kirana stores. 5) Unavailability of qualified personnel to Support exponential growth in retail. 6) Differentiate taxation laws hindering expansion.

#### 5. Share of Projected Retail Growth by Country 2010-2015:

<b>Country</b>	<b>2015 Growth Share</b>	<b>2015 Cumulative Growth Share</b>
China	21.5%	21.5%
United States	19.1%	40.6%
Russia	7.5%	48.1%
India	5.9%	54.0%
Venezuela	3.3%	57.3%
Mexico	3.1%	60.4%
United Kingdom	2.9%	63.3%
South Korea	2.8%	66.1%
France	2.2%	68.3%
Brazil	1.7%	70.0%

Source: Kantar Retail

#### 6. Challenges in Indian Retail Sectors:

- ✓ **Lack of Retail Space and High Stamp Duty:** As the price of real estate is increasing drastically which adversely resulted in growth of retail sector and it also attracts high stamp duty costs which vary from state to state.

- ✓ **Competition from Unorganised Retail Sector:** Unorganised retail sector are low cost oriented, less trained employees and require less retail space.
- ✓ **Lack of Recognising Retail Sector:** In India, though the retail sector contributing to the economy, it require huge financial resources to develop further by bringing various reforms in the legal system.
- ✓ **Lack of Talented Workforce:** In present scenario retail sector facing the challenge of trained manpower to meet the level of competition as well retaining those human resource which leads to reduction in profit level
- ✓ **Government Rules and Regulation:** Fluctuation in economic policy of the nation results in declining the growth of the retail sector. Presently, In India foreign direct Investment allowed only in one brand to the extent of 51%. This factor hindrance the growth and pose the challenge to the retailers.
- ✓ **Emergence of Online Retailing:** Consumers are shifted their mind set from retail stores to E-store system due to the change in the buying behaviour, higher disposal income and change in the life style
- ✓ **Rigid Tax Structure:** Even though value added tax is introduced by the government organised retail sector have to pay huge amount tax before product reach to ultimate consumers on the other hand unorganised retail sectors are evading tax which turn to be challenge of the retail sector.
- ✓ **Distribution Channel Conflicts:** Retail sector act as intermediate between the seller and consumer. Major challenge of the system is maintain good supply chain management.
- ✓ **Investment:** Retail sector required heavy financial resources to start the retail business. New entrants will find it difficult to establish retail outlets due to the more source of finance.
- ✓ **Penetrating Rural Market:** Trapping the rural market is the upcoming challenge of the retail sector by blue ocean strategy.

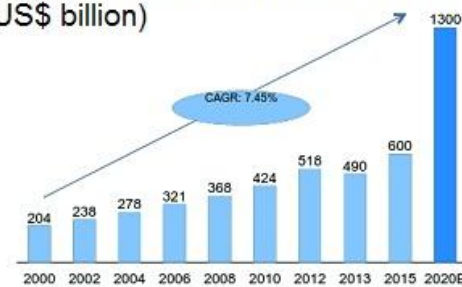
### 7. Strong Growth in the Indian Retail Industry:

Significant scope for expansion in organised retail



Source: BCG, KPMG-indiaretailing.com, Deloitte Report, Winning in India's Retail Sector, TechSci Research Notes: 'Mom-and-pop' stores are small stores that are typically owned and run by members of a family, E- Estimate

Market size over the past few years (US\$ billion)



Source: BCG Retail 2020, Ernst & Young, Deloitte, indiaretailing.com, Economist Intelligence Unit, Euro monitor, TechSci Research Notes: CAGR - Compound Annual Growth Rate, E - Estimated

### 8. Future opportunities of Retail Sector:

- ✓ **Growth of Middle Class Consumer:** Change in consumer behaviour emerged as opportunity to the retail sector to introduce different brands of the product to cater their needs as well make profit.
- ✓ **Urbanisation and Increasing Number of Working Women:** The concept of digital era converting rural area into urban which in turned as growth aspect of retail industry. Marinating balance between home and work is can considered as advantage for retail growth as they do not have leisure time to do shopping in different place.

- ✓ **Creates Employment Opportunities:** Retail industry converts unskilled employee into employable resource through training process. Even it creates job for all level of demographic mixture.
- ✓ **New Corporate Entries:** As many competitors are entered the retail sector created price war between the rivalry companies. It become an opportunity to the growth of retail sector to sustain the market share.
- ✓ **Emerging Rural Markets:** In India retail sector is proving that second largest source of creating job opportunity by catering the needs of rural people. Organised retail sector developing product and services to meet the demand of rural markets
- ✓ **Attracting Foreign Retailers:** Indian retail formats, legal system and government policies are attracting more foreign retailer and they entered indirectly through joint venture, franchising and foreign direct investments in single brand.
- ✓ **Technology Development:** Another crucial aspect of the country is advancement in technology. Introduction of computerization, electronic media and marketing information system have changed the phase of retailing.
- ✓ **Consumerism:** Present consumers are highly knowledgeable and demanding qualitative products in their preferences. This factor forced to change the structure from unorganised retailer in to organised retailing sector. Consumer demand, preference, life style, and buying pattern are moulding the retail formats and prospering too.

#### **9. Conclusion:**

Retail sector expected to contribute more in upcoming years in terms employment opportunities and national development. The growth of retailing sector converted unorganised into organised sector due to change in consumer preference, government policies and moreover globalisation concept. By blue ocean strategy retail sector can tap the rural market for tremendous growth. Despite of challenges retailing in India become as opportunities due to demographic segment can considered for growth of the sector.

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