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Retail sector: An emerging and happening sector for the sustainable growth of Indian economy

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Abstract

India is well on its way to become one of the most prospective markets for the domestic and global retailers with the growing economy, improving income dynamics, rising awareness, and a youth-heavy customer base. Retail Sector is one of the most booming sector in the Indian economy. Indian retail sector is growing tremendously with the changing demographics and an increase in the quality of life of urban people. The main objective of this paper is to study the issues, challenges and prospects of the retail sector in India. My paper includes growth of retail sector in India, its strategies, strength and opportunities of retail stores. This paper provides detailed information about the growth and expansion of retailing industry in India. It examines the growing awareness about different brands among people of different socio-economic classes in India and also witnesses the significant growth of urban and semi-urban retail markets. The outcome of the study indicates that Indian retail sector is growing at a faster pace with a bright future. To be able to reach the aim with my study, the Deductive Approach of research has been extensively used. The sources used for collecting data include books, magazines, journals, periodicals and publications by government agencies, newspapers. 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.

Keywords: Retailing, Unorganized Sector, Socio- Economic classes, Income dynamics, Demographics.

1. Introduction

Retail Sector is an emerging and happening sector for the sustainable growth of Indian economy. India tops in the list of emerging market for global retailer and India's retail sector is expanding and modernizing rapidly along with India's economic growth. Retailing in India is gradually moving toward becoming the next boom industry. The future is promising, the market is growing, government rules and policies are becoming more favorable and emerging technologies are facilitating operations. Retailing in India is evolving rapidly, with consumer spending growing at a faster rate and with increasing number of global players investing in retail sector. Organized retail sector in India is growing at such a faster rate and is expected to scale up to meet global standards over the next five years. The whole concept of shopping has now changed, in other words we can say that the whole concept of shopping is altered in terms of format and consumer buying behavior. Modern retail has entered India as seen in shopping centers, multi-storied malls and huge complexes. Entertainment along with food, everything is now under one roof. 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 working-women population and emerging opportunities in the services sector are going to be the key growth drivers of the retail sector in India. India's retail market has experienced enormous growth over the past decade. The most significant period of growth for the sector was between year 2000 & 2006, when the sector revenues increased by about 93.5% translating to an average annual growth of 13.3%. The sectors growth was partly a reflection of the impressive Indian economic growth and over all rises in income level of consumers. Retailing is one of the pillars of the economy in India.

The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, Indian 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 tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. Now with growing market demand, the industry is expected to grow at pace of 25-30% annually. The Indian retail industry is currently growing at a great pace and is expected to go up to US \$ 833 billion by the year 2013. In the last four years consumer spending in India has climbed up to 75%. In India though, organized retail accounts for app. 5-6% of total retail revenues, however, with a young population, increasing disposable income, changing life styles and a robust economy India is set to emerge as one of the fastest growing organized retail markets in the world. Organized retailing refers to trading activities undertaken by licensed retailers, i.e. 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. Unorganized retailing, on the hand, refers to the traditional formats of low cost retailing, for example, the local kirana shops, owner manned general stores, convenience stores, hand cart and pavement vendors etc.

2. Review of Literature

There are number of elements that characterize the retail industry in India, these are: (i) People-centric Industry. (ii) Service-oriented sector. (iii) Demand drivers are more location specific. (iv) Peak time for retailers on holidays or festivals. Gupta (2008) says that with the changing socio-economic scenario of India, the dynamic of retail have also undergone a sea change. The 7 P's Product, place, price, promotion, people and process play important role in retailing where as, physical evidence is one aspect that does not need any emphasis for changing consumer's mindset. Aggarwal and Goyal (2010), In India a consuming class is emerging as a result of increasing income levels and dual career families with high disposable incomes. With the presence of retails in the market, it is important to identify the target shoppers as well as the prime factors of enjoyment in shopping. The results reveal that a majority of the consumers are pro shoppers, feeling enjoyment while shopping. Their key interests include getting product ideas or meeting friends. They also view shopping from emerging retail formats as a means of change in daily routine or diversion to alleviate depression. They also go shopping to have fun or just browse through the outlets which is commonly known as window shopping. The study by Satish and Raju (2011) throws light on the major Indian retailers that highly contribute to the retail sector in India. Some of the major Indian retailers are Tata Group, Pantaloon, RPG Group, Reliance Group and A V Birla group. The study by Mishra (2009) expose that mall space, demography, availability of brands, rising retail finance, rising young population, modern retail formats, changing lifestyle and foreign direct investment are the strengths and opportunities for modern retail model, where as real estate cost, improperly developed mall, lack of skilled personnel, underdeveloped supply chain and taxation hurdles are the weaknesses and threats for modern retail formats. Ali and Kapoor (2010) [1] indicated that gender and age seems to have no significant impact on product and market attributes

where as higher income and educational level have an impact on consumer's decisions on product and market attributes. According to Jain and Bagdare (2010) Layout, ambience, display, self-service, value added services, technology based operations and many more dimensions with modern outlook and practices are the major determinants of modern retail formats. The study by Dash *et al* (2008) and CII (2009) depict that growing middle class, increase in spending, and improvement in infrastructure, large number of earning youth customers, liberalization of Indian economy and India's growing economy are the various opportunities for organized retailing in India where as, lack of proper infrastructure, complexity of taxes and high cost of real estate are the hurdles, which need to remove for retail success in India. Enjoyable pleasant and attractive in store shopping environment increases the chances of impulsive buying among consumers, Crispen *et al* (2008).

3. Objectives of the Study

1. To find out the issues, challenges impacting the Indian retail sector.
2. To find out the future prospects of organized retail sector in India.
3. To evaluate the current status of Indian retail sector.
4. To identify the major drivers of organized retail sector for sustainable growth.

4. Research Methodology

To be able to reach the aim with my study, the Deductive Approach of research has been extensively used, as my intention is not to create a new theory therefore inductive approach is not suitable. The sources used for collecting data include books, journals, magazines, periodicals and publications by government agencies, newspapers.

5. Findings of the Study

The outcome of the study indicates that the future of retail sector in India is bright and growing at a faster pace in all sectors but the research conducted found various factors that make a difference in organized retail sector.

5.1 International Standards

Even though India has retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.

5.2 Cultural Diversity

India is a country with cultural diversity. India's huge size, its socio economic behaviour and cultural diversity shows there is no established model or consumption pattern throughout the country. Manufacturers and retailers have to devise strategies for different sectors and segments which in itself is challenging.

5.3 Inefficient supply chain management

Indian retailing lacks efficient supply chain management and is still dominated by the unorganized sector. India must concentrate on improving the supply chain management, which in turn would bring down cost of inventory, which in return will be beneficial to the consumer in the form of lower prices.

5.4 Lack of trained personnel: There is lack of trained manpower which is the major shortcoming faced by the organized retail sector in India. The Indian retailers have difficulty in finding trained person and also have to pay more in order to retain them which again brings down the Indian retailers profit levels and thus increases the cost of products.

5.5 Frauds

One of the primary challenges that the companies have to face is frauds. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, the number of thefts, frauds would also increase.

5.6 Lack of proper Infrastructure

Lack of proper infrastructure and distribution channels resulted in inefficient processes and delays. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.

6. Suggestions

Though there are challenges for the retail sector, my research found out some opportunities, which organizations can grab. Retail marketing gets various opportunities to grow up in the Indian market. Not only retailers but manufacturers as well as suppliers and buyers have various opportunities, some of which are mentioned below:

6.1 Introducing New Marketing Channels

Number of people with regular access to the Internet has increased dramatically. Social media advertising will surely add value to new marketing channels.

6.2 Enhancing Shopping Experience

Displays should be such so that it attracts customers to buy. Organized retail stores put stress on proper infrastructure like well maintained building, air conditioning, electronic machine, trained employees, parking facilities and proper display of goods category wise where customers feel comfort, joy and entertainment. These days purchasing has become joy for him. Self-selection saves time and gives more opportunities and satisfaction, moreover fixed cost removes the threat of misleading. Customers avails various discounts and promotional schemes presented by the manufacturers of products with different varieties and of proper quality.

6.3 Unique Feature

Organized retail provides brands much needed visibility and platform for customer interaction. It also helps in launching of new product or product variant and in market penetration. It has wider product range and more frequent, speedier deliveries.

6.4 Promotional Schemes

Increase in the number of retail outlets increases competition among these retailers. To attract customers they give various promotional schemes as various discounts, buy one get one free, another product with any particular product, festival special, etc.

6.5 Launching New Products and Services

Consumer behavior is changing, and constant innovation of products and services from retailers is required as a result.

6.6 Backward Integration

The retail marketers directly purchase from farmers and reducing middlemen, thus provide proper cost to farmers and also set proper price for consumers. They also make contract with farmers to get proper amount of crops and vegetables.

6.7 Increase Efficiency in the Supply Chain

The supply chain presents a significant opportunity for retailers to reduce inefficiencies and compete on cost, which is increasingly crucial as companies in low-growth consumer markets battle for market share.

6.8 Positive Social Change

Retailing leads to improvement in local infrastructure by providing adequate parking facilities, ATM, a safe and secure environment which encourages the setting up of 24 hours, Convenience stores, a hygienic ambience to the consumer's etc. This is enabling positive social change in the industry.

7. Future Prospects

India is now considered to be highly attractive nation for retail investment in fact it is the third most attractive nation among 30 emerging markets surveyed by a US-based Global Management Consulting firm. A large talent pool, endless opportunities, vast markets and the availability of quality raw material at relatively cheaper cost is expected to help India overtake the world's best retail economies by the year 2042. The International retailers see India as the final retailing frontier left as the China's retail sector is fast becoming saturated. Domestic players are selectively growing in India-postponing aggressive expansion plans, adding stores judiciously and shifting gears to tier 2 and 3 cities. Carrefour, second-largest retailer of the world, has opened its first cash-and-carry store in India in New Delhi. Düsseldorf, Germany-based wholesale company, Metro Cash & Carry (MCC) has opened its second wholesale centre at Uppal in Hyderabad, taking the total number of its stores to six in the country. TATA's subsidiary Tanishq, one of the premier Jewelers of the country, plans to open 15 new retail stores in various parts of the country in the next fiscal. V Mart Retail Ltd, a medium-sized hypermarket format retail chain, is set to open 40 outlets over the next three years, starting with 13 stores in 2011, in Tier-II and Tier-III cities. Reliance Retail, a subsidiary of Mukesh Ambani's Reliance Industries, to keep its nose in the front, is set to open double the number of stores across the country in all formats within five years. Leading watchmaker Titan Company Ltd., a joint venture between TATA and TNIDC, has plans to invest about US\$ 21.83 million for opening 50 premium watch outlets Helios in next five years to attain a sales target of staggering US\$ 87.31 million. British high

street retailer, Marks and Spencer (M&S) also plans to increase its retail presence in India, targeting a whopping 50 stores in the next three years. India's retail industry is the second largest sector, after agriculture, which provides employment opportunities. The Associated Chambers of Commerce and Industry of India (ASSOCHAM), believes that India's retail sector will create 50,000 jobs in next few years.

Indian Government seems determined to go ahead and gradually liberalize the retail sector despite continuing opposition from the Left parties. The laggardness with which the retail sector is being opened up is due to objections by the Communists, but the silver lining is that some movement is taking place, albeit slow. This largely seems to be due to Prime Minister Narendra Modi's conviction that bringing in the big retail chains will unchain a wave of employment in rural and urban areas. It's time for retail chains to enter this country. Indeed, the process has been gradual, but even so large retailers have made a dramatic impact in the areas where they had been allowed to make an entry.

8. Conclusion

Retailing is one of the largest industry in India and, needless to say, one of the biggest sources of employment in the country. Numerous well-established business houses are attracted in the past few years, including some of the most respectable business groups of the country like Bharti, Reliance, and Aditya Birla, to establish hold, showing the future growth in times to come. In addition to the indigenous players, the organized retail sector of the country has also grabbed the attention of foreign companies, showing their interest to enter India. Policy paralysis due to varied political interests is an unfortunate reality that has been coming in the way of success of organized sector and ultimately the overall retail sector. There is a need for a balanced approach towards retail and it is govt. that has to play a very vital role in shaping the future course. Though traditional retail has been performing a vital function in the economy, but it has to shed-off its shortcomings and inefficiencies and this is happening gradually. So, the organized sector is not only impacting the other sectors positively but also it has benefited its own competition i.e. unorganized sector. Needless to say, the organized sector has become the growth mantra of Retail Sector. In the light of the facts as mentioned above, the paper strategically analyzed the Indian retail Industry. On a micro level, the location of the retail store, style of management and fair employee compensation enhance the overall effectiveness of retail business and are important factors for a retailer's success and it will eventually lead to the overall development of the sector. Hence, there is an urgent need for retailers to overcome the threats and weaknesses and grab the opportunities through their strengths for their own success and the retail sector in India overall.

9. Limitations

The roadblocks in the success of organized sector are:

1. Talent shortage in general and skilled labour in particular.
2. Supply Chain Management is still in the nascent stage. Hence, the kind of quality that customers demand is not being provided in a timely manner. There are far too many intermediaries, which often indulge in hoarding

and other such malpractices. These long intermediaries chains are in turn driving up their costs.

3. Poor Infrastructure-such as roads, electricity, cord chains and posts, hampers going for a pan-India network of supplies and in turn retailers have to resort to multiple vendors for their requirements, which is raising their costs and prices.
4. Organized sector does not have Industry status in India. Moreover, it is difficult for the players to raise funds for their expansion plans. Government restrictions on FDI limit are only limiting the exposure of the best International practices.

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