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**Shavita Deshwal**  
 Assistant Professor, Institute –  
 Dept. of Business  
 Administration, MSI

## Flaring Retail Sector: Facets and Challenges

**Shavita Deshwal**

### Abstract

The Indian retail industry flaring day by day. The concept of retail which includes the shopkeeper to customer interaction, has taken many forms and dimensions, from the traditional retail outlet and street local market shops to upscale multi brand outlets, especially stores or departmental stores. This paper makes an attempt to study features and challenges for retail sector.

**Keywords:** Retail industry, Flaring, Customer interaction.

### Introduction

Indian retail industry is the biggest industry in comparison to other industries. It has around 14% share in Gross Domestic Product and around 8% in employment. Indian retail industry is one of the rising sectors with high growth potential. According to the Investment Commission of India, the retail sector will attain the level of \$ 660 billion by 2015. Retail industry is divided into unorganized and organized sectors. Organized sector means that part which is well regulated. It means registered stores. Unorganized sector includes the traditional stores such as Pan Beedi, Corner Store. With the changing retail scenario the consumers are looking beyond traditional retail stores and going towards organized outlets. Retail has played a significant role in world over in increasing productivity and generating employment. The impact is visible in countries like Brazil, U.S.A., U.K., Thailand and China. Retail is the second-largest industry in the United States. About 22 million Americans are employed in retail sector; they are generating about \$3 trillion in sales annually. The share of organized retailing in the total retail sales has been estimated as 20% in China, 25% in Indonesia, 35% in Philippines, 40% in Thailand and 50% in Malaysia. The proportion of organized retailing in US is around 80%, in Europe it is 70%. It is around 20% in Asia. Technopak Advisors Pvt. Ltd have estimated the category wise share of different consumer items under both unorganized and organized retail in India as on 2006, 2011 and projections of 2016. The details of these estimates are given as under:

**Table 1:** Indian Retail Market, Category wise (Billion US Dollars)

Category	2006	2011	2016 (Projected)	CAGR Percent (2011-2016) (Projected)
Food and grocery	217	325	425	5.50
Apparel	25	35	50.2	7.50
Jewelry and watches	16.5	25.6	44.2	11.50
Consumer electronics	16.5	22.7	42.8	13.50
Pharmacy	8.0	13.9	23.4	11.00
Furnishing and furniture	6.5	9.1	17.1	13.50
Restaurants	4.6	8.8	15.8	12.50
Footwear	3.6	4.5	8.3	13.00
Beauty Services	0.6	1.3	3.0	18.00
Health services	0.4	1.0	2.5	20.00
Others	11.0	23.0	42.5	13.10
Total US \$(Billion)	310.0	470.0	675.0	7.50

**Source:** [www.lemoci.com/media/distributioninde2011/pdf](http://www.lemoci.com/media/distributioninde2011/pdf)

**Correspondence**  
**Shavita Deshwal**  
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 Dept. of Business  
 Administration, MSI

## **Facets of Retail Marketing**

Two facets of retail marketing have been divided into store retailing and non-store retailing described as follows:

### **A. Store Retailing**

Store retailing provides consumers to shop for goods and services in a wide range of stores and it also helps the consumers to get all the desired goods and services from one shop only. The different types of store retailing are given below:

#### **1) Departmental Store**

These stores are usually built in huge area and keep assortment of goods under one roof. It is usually divided into different sections like clothing, kids section, ladies section, gents section, home furnishings, electronic appliances and other household goods. In a departmental store a consumer can buy variety of goods under one roof.

#### **2) Convenience Stores**

These are relatively small stores located near residential area, open for long hours seven days a week, and carrying a limited line of high turnover convenience products at slightly higher prices than departmental stores.

#### **3) Off-Price Retailer**

These stores sell goods at low price with lower margins & higher volumes. These stores sell goods with weakened quality. The defects are normally minor. This target at the persons belonging to the lower income group, though some of them have a collection of imported goods aimed to target the younger generation. The company owned showroom selling such products is an example of off-price retailer.

#### **4) Specialty Stores**

These stores focus on leisure tastes of different individuals. They have a narrow product line with deep collection such as apparel stores, sporting goods stores, furniture stores, florists and bookstores. These stores are usually expensive and satisfy the needs of selected consumers who have preference for exclusive things.

#### **5) Super Market**

These stores are relatively large, low cost, low margin, high volume, self service operations designed to serve total needs for food, laundry and household maintenance products. Supermarkets earn an operating profit of only 1% on sales and 10% on net worth.

#### **6) Discount Stores**

These stores sell standard merchandise at lower prices by accepting lower margins and selling higher volumes. The use of occasional discounts or specials does not make a discount store. A true discount store regularly sells its merchandise at lower prices, offering mostly national brands, not substandard goods.

#### **7) Catalog Showroom**

Catalog showrooms generally sell a broad selection of high-markup, fast-moving, brand name goods at discount prices. These include jewelry, power tools, cameras, luggage, small appliances, toys and sports goods. Catalog showrooms make their money by cutting costs and margins to provide low prices that will attract a higher volume of sales. Catalog

showrooms have been struggling in recent years to hold their share of the retail market.

### **8) Hyper Stores**

Hyper market is a superstore which carries an enormous range of products under one roof, including full lines of groceries and general merchandise.

### **B. Non Store Retailing**

It is another type of retail marketing. Different types of non-store retailing are given below:

#### **1) Direct Marketing**

Direct marketing has its roots in mail-order marketing but today includes reaching people in other ways than visiting their homes or offices, including telemarketing, television direct response marketing and electronic shopping.

#### **2) Automatic Vending**

Automatic vending has been applied to a considerable variety of merchandise including impulse goods with high convenience value (soft drinks, toffees and hot beverages) and other products (hosiery, cosmetics, food snacks, hot soups and food).

#### **3) Direct Selling**

Direct selling which started centuries ago with itinerant peddlers has burgeoned into a \$9 billion industry with over 600 companies selling door to door, office to office or at home sales parties. A variant of direct selling is called multilevel marketing, whereby companies such as Amway recruit independent business people who act as distributors for their products, who in turn recruit and sell to sub distributors, who eventually recruit others to sell their products, usually in customer homes.

### **Challenges Ahead For Retailing**

The unorganized nature of retailing has stunted its growth over several years. "Lack of industry status affects financing prospects and stunts growth of the industry", says Kishore Biyani, managing director, Pantaloon Retail India (2013). In the current scenario, only players with deep pockets have been able to make it big. In addition to the advent of Internet, there are many other challenges which retailers have to address. Some of them are as following:

#### **• Human Resources**

Availability of trained personnel and retaining the human resources is a major challenge for these big retailers. The bigwigs like Crossroads offer high compensation and create a cohesive environment that makes an employee proud to be a part of such big retail chains. The problem is escalating with the rise in organized retail and large global players entering the country. The attrition rate in the industry stands at 25% to 35%. Some of the large corporates have partnered with premium management institutes and designed retail-specific courses.

#### **• Space and Infrastructure**

To establish a retail shop, the real estate and the infrastructure are very vital. The expenditure and availability on both the accounts do hinder the growth of the retail chain. The lack of secondary infrastructure also affects the logistics and supply chain management for retail companies. Property

rentals in the country are among the highest in the world and add considerably to operational cost. The Indian real estate cost accounts for 5% to 9% of the net revenue of the retailer as compared to 3% to 4% of global retailers. At the same time, real estate sector is diluted with high stamp duty cost on transfer of property.

- **Absence of retailer friendly laws**

India still does not have retail-friendly laws especially relating to the movement of goods from one state to another. Retailers need to put in a whole lot of products from different parts of the country - at times from outside the country - on the shelf. But question of multiple tax levels is an issue. Then there are laws like shops cannot be open for all seven days, shops have to be open after or close before a certain time which affects operations.

- **Lack of technical know-how**

The Indian government does not encourage any foreign direct investment (FDI) in the retail industry. FDI is normally one of the ways of getting technical inputs. And because of this dearth of FDI in this sector, development in terms of people is happening the hard way.

- **Future perspective**

We should see fundamental shifts in the way Indians shop in the very near future. The Year 2003 could well be a landmark year for organized Indian retailing. According to a study done by Economic Times Intelligence Group (2013) the organized retail industry is expected to grow by 30 per cent in the next five years and is expected to touch Rupees 45,000 Crore. Thus the growth potential for the organized retailer is enormous. In the next 2-3 years, India will finally see operations of a number of very serious international players- notwithstanding the current restrictions on FDI in retail. Metro from Germany is a very successful and resourceful retailer and their cash & carry format should offer a good run for money to others. Some others will also find perfectly legitimate ways to operate in India, for example, Marks & Spencer, Mango and Shoprite.

- **Fragmented market with unorganised players**

The Indian retail market is controlled by unorganized retailers. The organized retail penetration stands at 5% and is growing at a CAGR of 15 to 20%. Organised retailers continue to face firm competition from the unorganized sector. The latter have a low cost structure that runs from generation to generation. Most modern retailers find it hard to replicate this level of intimacy. Traditional retailers have also risen to the competition from organized retailers. The adoption of IT systems, surveillance systems, tracking the customer database, loyalty management, SMS marketing, credit purchase and free home delivery have helped unorganized players to hold customers.

- **Retail Frauds**

Retail frauds have been a concern for the Indian sector. According to the Global Retail Theft Barometer (GRTB) 2011 covering 45 nations, the shrinkage in India stood at 2.38%, the highest in the world. The average global shrinkage was estimated at 1. As per the GRTB, the key reasons for the retail shrinkage or pilferage in India include shoplifting, internal administrative errors, employee theft and vendors frauds. Retailers have started participating in loss

prevention and security measures such as CCTV and surveillance cameras. This will help in bringing down the shrinkages but the investment in these areas is still at emerging stage.

- **Long gestation period**

Margins for the retailers are very thin and it takes a few years for a store to break even after it starts operating in the Indian subcontinent. Retailers believe that persistence, deep pockets, incessant innovation, localization of products and services for the consumers is the key to long-term success.

### **Conclusion**

The country is witnessing a period of boom in retail trade, mainly on account of a gradual increase in the disposable incomes of the middle and upper-middle class households. More and more corporate houses including large real estate companies are coming into the retail business, directly or indirectly, in the form of mall and shopping center builders and managers. New formats like super markets and large discount and department stores have started influencing the traditional looks of bookstores, furnishing stores and chemist shops. The retail revolution, apart from bringing in sweeping, positive changes in the quality of life in the metros and bigger towns, is also bringing in slow changes in lifestyle in the smaller towns of India. Increase in literacy, exposure to media, greater availability and penetration of a variety of consumer goods into the interiors of the country, have all resulted in narrowing down the spending differences between the consumers of larger metros and those of smaller towns.

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