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A theoretical study of the Indian retail market

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Abstract

The Indian retail industry is very fast growing in the global scenario. The humongous population of the country, growing disposable income, emerging rural market, increasing online retail industry, urbanisation and others have been the major driving factors for the retail segment. The present study introspects the retail industry in India.

Keywords: Retail, urban India, GDP

Introduction

The retail sector is expanding and modernizing rapidly in line with India's economic growth. It offers significant employment opportunities in all urban areas. This study, the second undertaken by ICRIER on the retail industry, attempts to rigorously analyse the impact of organized retailing on different segments of the economy. No distinction has been made between foreign and domestic players, in analyzing the impact of the increasing trend of large corporates entering the retail trade in the country.

The study estimates that the total retail business in India will grow at 13 per cent annually from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12. The unorganized retail sector is expected to grow at approximately 10 per cent per annum with sales rising from US\$ 309 billion in 2006-07 to US\$ 496 billion. Organized retail, which constituted a low four per cent of total retail in 2006-07, is estimated to grow at 45-50 per cent per annum and attain a 16 per cent share of total retail by 2011-12. In short, both unorganized and organized retail are bound not only to coexist but also achieve rapid and sustained growth in the coming years. This is clearly not a case of a zero sum game as both organized and unorganized retail will see a massive scaling up of their activities. In fact, the retail sector, left entirely in the unorganized and informal segment of the economy, could well emerge as a major bottleneck to raising productivity in both agriculture and industry (Mathew Joseph *et al.* (2008))^[1].

India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). The retail industry in India is highly fragmented and unorganized. Earlier on retailing in India was mostly done through family-owned small stores with limited merchandise, popularly known as kirana or mom-and-pop stores. In those times, food and grocery were shopped from clusters of open kiosks and stalls called mandis. There were also occasional fairs and festivals where people went to shop.

In the twentieth century, infusion of western concepts brought about changes in the structure of retailing. There were some traditional retail chains like Nilgiri and Akbarallys that were set up on the lines of western retail concepts of supermarkets. The government set up the public distribution system (PDS) outlets to sell subsidised food and started the Khadi Gram Udyog to sell clothes made of cotton fabric. During this time, high streets like Linking Road and Fashion Street emerged in Mumbai. Some manufacturers like Bombay Dyeing started forward integrating to sell their own merchandise. Shopping centres or complex came into existence, which was a primitive form of today's malls.

Since liberalisation in early 1990s, many Indian players like Shoppers Stop, Pantaloon Retail India Ltd (PRIL), Spencer Retail ventured into the organised retail sector and have grown by many folds since then. These were the pioneers of the organised Indian retail formats. With the opening up of foreign direct investment in single-brand retail and cash-and-carry formats, a new chapter unfolded in the retail space.

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Many single-brand retailers like Louis Vuitton and Tommy Hilfiger took advantage of this opportunity. The cash and-carry format has proved to be an entry route for global multichannel retailing giants like Metro, Wal-Mart and Tesco.

Structure of the Indian market

India's population of more than 1 billion may at first glance seem like a tremendous opportunity for retailers, but in reality, it has become their biggest nightmare. Not only does

the uncontrollable population pose innumerable problems, its disproportionate density also aggravates the situation. The population of China, at approximately 1.2 billion, is only about 20 per cent higher than that of India while its size approximately 300 per cent more than that of India. Apart from its uncontrollable population, it is the high density of population and the unplanned expansion of its important towns and cities that pose numerous problems in India today.

Table 1: Population and Proportion of Total Retail Market

City Type	Population in crores		Population of total retail market (%)			
	2001	2025	2004	2010	2015	2025
Metroes, Mini Metroes and Cities	6.7	13	15	18	20	28
Top Cities, Population > 1 million (27 cities)	3.7	7.2	6	6	7	10
Large Cities Population 0.5to 1 million (32 cities)	2.4	4.5	2	3	3	4
Rest of India 5500 towns + 6 lakh Villages	87.4	115.3	77	73	69	57

Source: NCAER, CSSO TSMG Analysis (2006)

The social infrastructure in the country too is deficient and has not been developed in an organised manner either. Since retailing is an integral part of the social infrastructure of any country, the haphazard growth of the social infrastructure in India has caused the Indian retail market to grow in a highly fragmented manner over the last five decades.

There are presently over four million retail outlets in India's approximately 5500 urban markets and over 5,00,000 villages. While there has been virtually no development of organised retailing, the retailing scenario in the villages has been even more depressing due to various factors. The lack of proper roads, poor basic infrastructure and transport system have all contributed to this situation and very little effort is being made to improve matters in this area. City will reduce the catchments population of an outlet, thus increasing the density of occurrence. Delhi and Bangalore fall in the latter category. Towns with lower income and higher unemployment trends would give rise to

fragmentation of the retail universe resulting in a large number of small outlets. Calcutta, Howrah, Patna and Guwahati are some apt examples of such fragmentation. The composition of the retail universe in India is also quite diverse. Grocers account for the largest block of 32 per cent of the total retail outlets while the tiny paan stores have emerged as the second largest block accounting for about 15%.

Table 2: Structure of the Indian Market

Year	1994 - 95	2000 - 01	2005 - 06
Destitutes	35%	24%	17%
Aspirants	48%	32%	33%
Climbers	48%	66%	78%
Consuming Class	29%	55%	75%
Very Rich	1%	3%	6%

Source: Business India Projections Based on NCAER Research Published in Nov. 1997

Table 3: Segregation of Income Groups

Monthly Household Income (*000)	Number of individuals in Urban Area (millions)	Number of individuals in Rural Area (millions)
10 to 15	14	19
15 to 30	16.3	6.2
30 to 50	3.9	1.4
50 to 125	3.4	0.9
Above 125	1.7	0.2

Source: Business India Projections Based on NCAER Research Published in Nov. 1997

The future of the retail industry in India thus rests entirely in the hands of the retail community itself which should have no expectations from the government. While most retailers, especially supermarkets, around the world are considered to be a crucial part of the social infrastructure, India has still not woken up to this reality nor given the retail sector the importance and impetus it deserves.

Retailing in India remains just the same as it has been for several generations, with small, independent, owner-managed shops constituting a chunk of the total of 4 million retail outlets that are estimated to dot the country's landscape. According to surveys conducted by AIMS (Asian Information Marketing and Social Research) in 1996-97, it is estimated that there are over 2.1 million retail outlets stocking FMCG items in urban India alone. This implies that there is one outlet for every 125 urban residents. It can be observed that the north and east zones have a

significantly higher density of retail outlets as compared to the south and west zones.

The very concept of retailing, however, is still under developed in India, with emphasis only being laid on distribution. The Indian retail market is quite large but highly fragmented, comprising very few large retailers. It is estimated that there are approximately 1.8 million urban retail outlets in this unorganised sector, out of which only 7 per cent achieve sales of over Rs 8 lakh per annum. These traditional corner stores, at best, constitute nothing more than a cost and distribution overhead. At worst, they destroy the very concept of making shopping a pleasant experience. In fact, it is estimated that till date less than 2 per cent of the retailing business in India comes from organised retailing. There are approximately only 100 odd credible organised retailers comprising supermarkets and department stores in the entire country, the majority of which too have only come

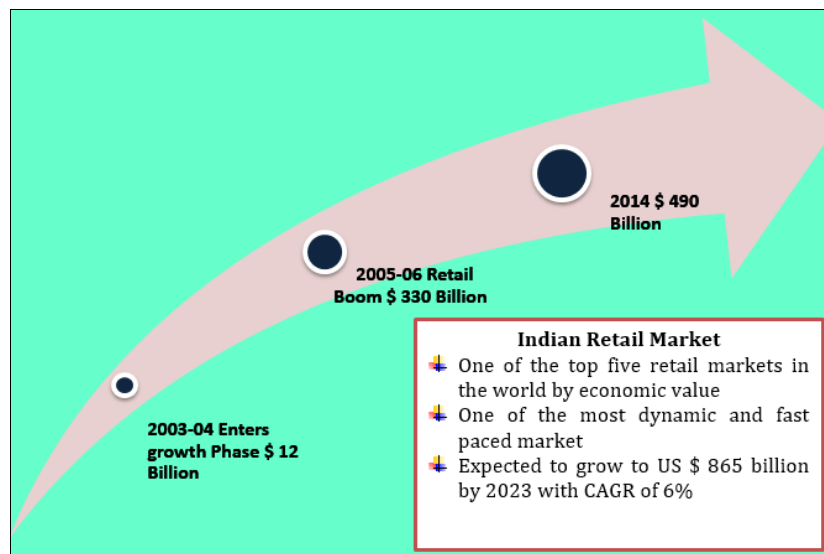
up during the last five years or so. Most of these stores are owner-managed and are independent outlets, while only a handful of companies have actually got down to serious chain store retailing yet. While almost 85 per cent of the shopping in the US is done in organised stores, it is a very different merchandise, offer limited services and at low prices. For instance, Subiksha and Margin Free Super Market.

Ancient India and retailing

The Indian Retailing of lifestyle goods dates back to prehistoric period. (Nehru, Discovery of India, 1950). Evidences of ornaments, designer apparels, foot wares, handicrafts, paintings and sculpture are found in the excavations at Mohenjo-Daro and Harappa. Since ancient period the diversity exist in food and clothing habits in India. In the ancient period the diversity in clothing and

food habits was largely depending upon the climate, physical features and traditions in the respective regions. The commonality is found in the retailing practices. The common is about the retailers who were selling in ancient period and who are selling in modern times also. In both the times they are found catering to the demands of the customers. In medieval times the customers were found more commanding.

The customers in medieval India were found to be worthy of setting the rules of marketing. Indian Lifestyle goods were always in demand in India and abroad. Evidences are found that trade flourished in India since ancient times and urbanization of Indian towns has roots in the growth of trade. Paithan in Maharashtra and Warangal in Andhra Pradesh were flourished mainly due to the production of fine cloths (Maharashtra State Bureau of Textbook Production and Curriculum Research, 2008).



Source: www.kryslis.com

Fig 1: Evolution of Indian Retail Market

There is vast difference between the habits of ancient Indian life and modern Indian life. The commonality is found in the retailing practices. The common is about the retailers who were selling in ancient period and who are selling in modern times also. In both the times they are found catering to the demands of the customers. In medieval times the customers were found more commanding. The customers in medieval India were found to be worthy of setting the rules of marketing. Indian Lifestyle goods were always in demand in India and abroad. Evidences are found that trade flourished in India since ancient times and urbanization of Indian towns has roots in the growth of trade. Paithan in Maharashtra and Warangal in Andhra Pradesh were flourished mainly due to the production of fine cloths. (Maharashtra State Bureau of Textbook Production and Curriculum Research, 2008).

Indian retail industry

India's Retailing Boom has acquired further momentum, dynamism and vibrancy with international players experimenting in the Indian market and the country's existing giants taking bold innovative steps to woo the consumer. At the same time, the early entrants are redefining their strategies to stay competitive and suit the new market landscape. The next few years are liking to witness rapid growth in the organized retailing sector with

several leading international players establishing their presence in India by adjusting their formats to suit local tastes and buying behavior while regional players have stepped up their defences and are striving to gain edge over global players by using their knowledge of local markets. Clearly the next wave of the retail boom is upon us.

Retailing is one of the pillars of the economy in India. Over the past few years, the retail sale in India is hovering around 33-35% of GDP as compare to 20% in the US. 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.

The evolution of retail in India

While barter is considered to be the oldest form of retail trade, since independence, Retail in India has evolved to support the unique needs to our country given its size and complexity. Haats, Mandis and Melas have always been a part of the Indian landscape.

They will continue to be present in most parts of the country and form an essential part of life and trade in various areas. The PDS or the Public Distribution System would easily as

the single largest retail chain existing in the country. The evolution of the public distribution of grains in India has its

origin in the ‘rationing’ system introduced by the British during the World War II.

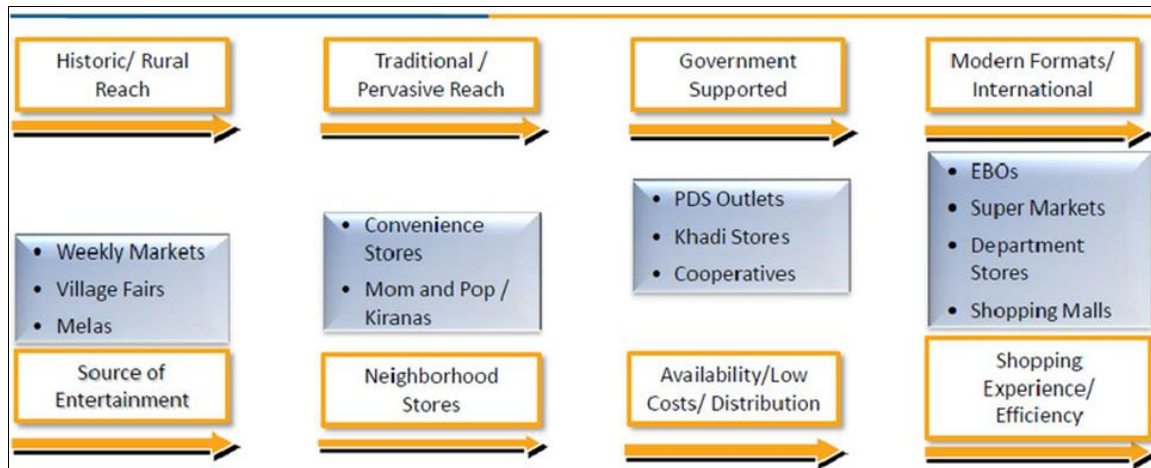


Fig 2: Evolution of Indian Retail

The System was started in 1939 in Bombay and subsequently extended to other cities and towns. By the year 1946, as many as 771 cities / towns were covered. The system was abolished post war, however, on attaining Independence, India was forced to reintroduce it in 1950 in the face of renewed Inflationary pressures in the economy. Tracing the evolution of Indian retail would be incomplete without mention of the Canteen Stores Department and the Post Offices in India. The Khadi & Village Industries (KVIC) was also set up post-independence. Today, there are more than 7,050 KVIC stores across the country.

The Cooperative movement was again championed by the government which set up Kendriya Bhandras in 1963. In Maharashtra, Bombay Bazaar, which stores under the label Sahakari Bhandar, and Apna Bazars run a large chain of Co-operative stores. In the past decade, the Indian marketplace has transformed dramatically. However from the 1950’s to the 80’s investments in various industries was a limit due to the low purchasing power in the hands of the consumer and the Government’s policies favoring the small-scale sector? It was at this time that many steps towards liberalization were taken in the period of 1985-90. It was at

this time many restrictions on private companies were lifted, and in the 1990’s the Indian economy slowly progressed from state led to becoming ‘market friendly’.

While independent retail stores chain like Akbarally’s Vivek’s and Nalli’s have existed in India for a long time, the first attempts at organized retailing were noticed in the textiles sector. One of the pioneers in this field was Raymond’s which set up stores to retail fabric. It also developed a dealer network to retail its fabric. These Dealers sold a mix of fabrics of various textile companies.

The Raymond’s distribution network today of 20,000 retailers and over 429 showrooms across the country. Other textile manufacturers who also set up their own retail chains were reliance – which set up Vimal Showrooms – and Garden Silk Mills with Garden Vareli.

It was but natural that with the growth of textile retail, readymade branded apparel could not be far behind and the next wave of organized retail in India saw the likes of Madura Garments, Arvind Mills, etc. set up showrooms for branded mens wear. With the success of the branded mens wear store, the new age departmental store arrived in India in the early nineties.

Table 4: M & A in Retail Sector in India, 2006

Year	Acquired/ JV Company/ Target	Acquirer	Nature of Business	Stake (in percent)	Consideration (in millions of US\$)
2005	Liberty Shoes	Future group	Retail (Footwear)	51	3
2005	Indus - League Clothing	Future group	Retail clothing	68	5
2005	Odyssey India	Deccan Chronicle Holdings	Leisure retail chain (books, music, toys)	100	14
2005	Landmark	Tata Trent	Books, music, accessories	74	24
2006	Bistro Hospitality	TGI Friday’s (a subsidiary of Carlson Restaurant World-wide)	Restaurant (Food retail)	25	N/A
2006	Indus League clothing (Future group company)	Etam group, France	Lingerie and women’s wear retailing	50	8

Source: Price water house Coopers, Asia-Pacific M&A bulletin, Midyear 2006

Evolution of organised retailing in India

- 1. Retail Initiation (Pre 1990s):** This phase was essentially dominated by manufacturers establishing their presence in retail. For instance-Bombay dyeing, the Raymond group.
- 2. Retail Conceptualization (1990-2005):** In this phase, pure-play retailers entered the retail market, to expand pan-India, e.g. Shoppers’ stop, Pantaloons.

- 3. Retail Expansion (2005 through 2010):** This is perhaps the most active phase of Indian Retail Industry- entry of new players and development of new formats such as Reliance, Tata etc.
- 4. Consolidation and growth (2010 onwards):** We are currently in this phase considering the challenges faced by the industries at present, retail chains are likely to focus on consolidation to cut costs and survive in the

market. With such a format gaining pace in the market, marketer needs to gain insight into consumer buying

behaviour.

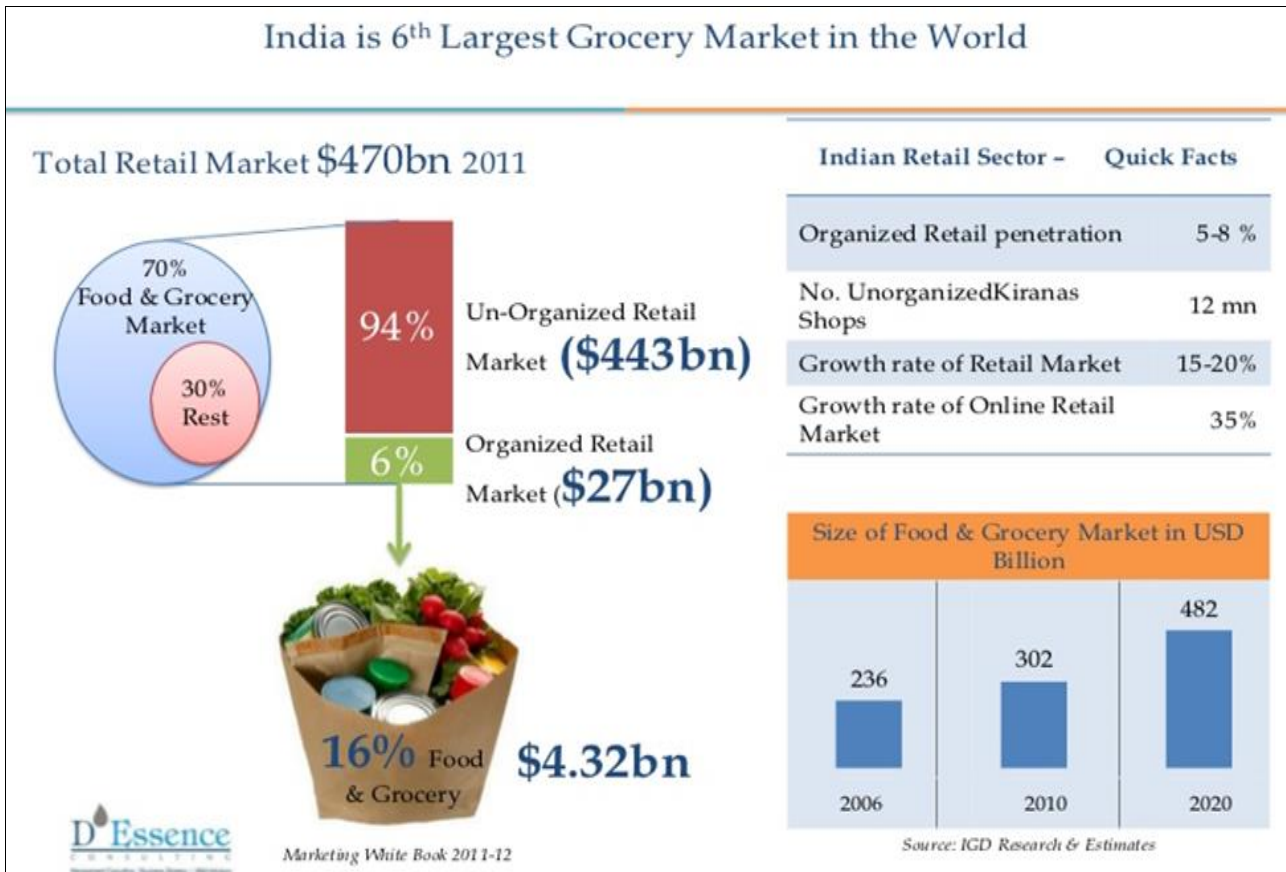


Fig 4: India's Position in the Grocery Market in the World

The future

Organized retail is a new phenomenon in India and despite the downturns, the market is growing exponentially, as economic growth brings more of India's people into the consuming classes and organized retail lures more and more existing shoppers into its open doors. By 2015, more than 300 million shoppers are likely to patronize organized retail chains. The growing middle class is an important factor contributing to the growth of retail in India. By 2030, it is estimated that 91 million households will be 'middle class', up from 21 million today.

Conclusion

The retail industry in India is one of the major economic segments in the country. The Kirana stores, wayside shops, organised to on-line retail, the progression is welcoming and imperative to the GDP growth of the economy. The Retail industry is growing day-by-day in both the volume and the magnitude. The acceptance and application of the technology will definitely be the thing to look forward to in the future.

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