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## A study on growth of retail industry in India: Prospects and challenges

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### Abstract

Indian Retail Market is the largest sector among all the industries. It has upward growth. Several players are entering this market but only few are managed to survive and taste the success. The status of retail industry is dependent on various factors like government regulations, real estate prices, and demands of customers. But still there is an impressive growth though some challenges exist. Retail Sector in India can overcome the challenges by grabbing the available opportunities.

**Keywords:** Retail, industry, supply demand, consumer, economy

### Introduction

India has witnessed rapid economic growth in the past decade, and it has now become one of the emerging economies in Asia. India is tipped as the second largest retail market after China. The retail sector in India is expanding and modernizing rapidly in line with India's economic growth. The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. Total consumption expenditure is expected to reach nearly US\$ 3,600 billion by 2020 from US\$ 1,824 billion in 2017. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. India is the world's fifth-largest global destination in the retail space. India is the world's fifth largest global destination in the retail space. In FDI Confidence Index, India ranks 16th (after U.S., Canada, Germany, United Kingdom, China, Japan, France, Australia, Switzerland and Italy). Developing countries like India need substantial foreign inflows to achieve the required investment to accelerate economic growth and development. It has potential for making a contribution to the development through the transfer of financial resources, technology and innovative and improved management techniques along with raising productivity. This paper also examines the changed policy implications on sectoral growth and economic development of India as a whole.

### Need and importance of the study

The Indian retail industry is one of the fastest growing in the world. Retail industry reached to Rs 66.39 lakh crore (US\$ 950 billion) in 2018 at CAGR of 13 per cent and expected to reach Rs 76.87 lakh crore (US\$ 1.1 trillion) by 2020. India ranked 63rd in World Bank's Doing Business 2019. India is the fifth largest preferred retail destination globally. The country is among the highest in the world in terms of per capita retail store availability. India's retail sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. Healthy economic growth, changing demographic profile, increasing disposable incomes, urbanisation, changing consumer tastes and preferences are the other factors driving growth in the organised retail market in India. India ranked 77th in World Bank's Doing Business 2019. The modern retail market in India is expected to grow from Rs 94,421 crore (US\$ 13.51 billion) in 2016 to Rs 1.86 lakh crore (US\$ 26.67 billion) in 2019.

India's population is taking to online retail in a big way. Online retail sale is forecasted to grow at the rate of 31 per cent to reach Rs 2.28 lakh crore (US\$ 32.70 billion) in 2018@. Revenue generated from online retail is projected to grow to Rs 4.19 lakh crore (US\$ 60 billion) by 2020.

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Organised retail penetration is expected to increase to 18 per cent in 2021 from an estimated nine per cent in 2017. India is expected to become the world's third-largest consumer economy, reaching Rs 27.95 lakh crore (US\$ 400 billion) in consumption by 2025.

India's retail sector investments doubled to reach Rs 1,300 crore (US\$ 180.18 million) in 2018. Revenue of India's offline retailers, also known as brick and mortar retailers, is expected to increase by Rs 10,000-12,000 crore (US\$ 1.39-2.77 billion) in FY20.

**Objectives of study**

The main objective of present paper is to study the retailing in India, and also to identify the challenges before the retail sector in India. The study covers the following objectives:

1. To study the growth and development of retail sector in India.
2. To assess the challenges and opportunities before the Retailing in India.
3. To identify the Opportunities before the Retailing in India.

**Research methodology**

The present study is of analytical nature and makes use of secondary data. The relevant secondary data has been collected from reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Centre for Monitoring Indian Economy, Reserve Bank of India, World Investment Report and World Investment Report. RBI bulletin, online data base of Indian Economy, journals, articles, newspapers, etc. Based on the analysis, the research paper is written.

**Status of Retail market in India**

The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. Total consumption expenditure is expected to reach nearly US\$ 3,600 billion by 2020 from US\$ 1,824 billion in 2017. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. India is the world's fifth-largest global destination in the retail space. India is the world's fifth largest global destination in the retail space. In FDI Confidence Index, India ranks 16th (after U.S., Canada, Germany, United Kingdom, China, Japan, France, Australia, Switzerland and Italy).

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2020. Online retail sales are forecasted to grow at the rate of 31 per cent year-on-year to reach US\$ 32.70 billion in 2018. Revenue generated from online retail is projected to grow to US\$ 60 billion by 2020. Revenue of India's offline retailers, also known as brick and mortar (B&M) retailers, is expected to increase by Rs 10,000-12,000 crore (US\$ 1.39-2.77 billion) in FY20. India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. Various agencies have high expectations about growth of Indian e-commerce markets. Luxury market of India is expected to grow to US\$ 30 billion by the end of 2018 from US\$ 23.8 billion 2017 supported by growing exposure of international brands amongst Indian youth and higher purchasing power of the upper class in tier 2 and 3 cities, according to ASSOCHAM.

The Indian retail trading has received Foreign Direct Investment (FDI) equity inflows totaling US\$ 1.85 billion during April 2000-June 2019, according to the Department for Promotion of Industry and Internal Trade (DPIIT). With the rising need for consumer goods in different sectors including consumer electronics and home appliances, many companies have invested in the Indian retail space in the past few months. India's retail sector investments doubled to reach Rs 1,300 crore (US\$ 180.18 million) in 2018. Walmart Investments Cooperative U.A has invested Rs 2.75 billion (US\$ 37.68 million) in Wal-Mart India Pvt Ltd. The Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organised retailing formats. The industry is moving towards a modern concept of retailing. India's retail market is expected to grow at 7% over the next 10 years, reaching a size of US\$ 850 billion by 2020. Traditional retail is expected to grow at 5% and reach a size of US\$ 650 billion (76%), while organized retail is expected to grow at 25% and reach a size of US\$ 200 billion by 2020. As per a study conducted by the Indian Council for Research on International Economic Relations (ICRIER), the retail sector is expected to contribute more than 22 per cent of India's GDP.

**Analysis of data**

Following parameters have been identified to illustrate the importance of FDI in general & retail in particular.

1. To analyze the Share of Top Investing Countries.
2. To analyze the Sector-wise FDI Inflows (Rupees in Crores).
3. To Review the Growth in 'Organized' Retailing.
4. To Review the contribution of Retail to GDP.

**Table 1:** Share of Top Investing Countries

Rank	Country	2008-09	2009-10	2010-11	(for April '10)	Cumulative Inflows (April '00 to April'10)	% age to Total Inflows
1.	Mauritius	44483	50794	49633	2528	213434	43
2.	Singapore	12319	15727	11295	1933	47080	9
3.	USA	4377	8002	9230	404	37593	7
4.	UK	4690	3840	3094	265	26263	5
5.	Netherlands	2780	3922	4283	312	20438	4
6.	Japan	3336	1889	5670	1455	18350	4
7	Cyprus	3385	5983	7728	123	17900	4
8.	Germany	2075	2750	2980	102	12571	3
9.	France	583	2698	1437	184	7102	1
10.	UAE	1039	1133	3017	31	7054	1
Total FDI		98664	123025	123378	9854	526357	83

Source: Ministry of Finance, GoI

Table-1 reveals that the cumulative FDI inflows from the above results reveals that service sector in India attracts the maximum FDI inflows amounting to Rs. 106992 crores, followed by Computer Software and Hardware amounting to Rs. 44611 crores. These two sectors collectively attract more than thirty percent (30%) of the total FDI inflows in India.

The perusal of Table-2 depicts the Sector wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the service followed by the computer hardware and software in terms of FDI. The telecom industry is one of the fastest growing industries in India. With a growth rate of

45%, Indian telecom industry has the highest growth rate in the world. FDI Inflows to Construction Activities has led to a phenomenal growth in the economic life of the country. India has become one of the most prime destinations in terms of construction activities as well as real estate investment. The FDI in Automobile Industry has experienced huge growth in the past few years. The increased FDI Inflows to Chemicals industry in India has helped in the growth and development of the sector. The increased flow of foreign direct investment in the chemicals industry in India has helped in the development, expansion, and growth of the industry.

**Table 2:** Sector-wise FDI Inflows (Rupees in Crores)

Sector	2007-08	2008-09	2009-10	2010-11	Cumulative Inflows (April '00 to April '10)	% age to Total Inflows in terms of US Dollar
Services Sector (financial & nonfinancial)	26589	28411	20958	1581	106992	21
Computer Software & Hardware	5623	7329	4350	765	44611	9
Telecommunications (radio paging, cellular mobile, basic telephone services)	5103	11727	12338	1914	42620	8
Housing & Real Estate	8749	12621	13586	246	37615	7
Construction Activities (including roads & highways)	6989	8792	13544	345	36066	7
Power	3875	4382	6908	547	21466	4
Automobile Industry	2697	5212	5609	187	20864	4
Metallurgical Industries	4686	4157	1935	404	13845	3
Petroleum & Natural Gas	5729	1931	1328	522	12026	2
Chemicals (other than fertilizers)	920	3427	1707	115	11390	2

Source: Ministry of Finance, GoI

**Growth in 'organized' retailing**

The growth pattern in organized retailing and in the consumption made by the Indian population may follow a rising graph helping the newer businessmen to enter the India Retail Industry. The Indian consumer behavior of preferring proximity to retail formats is also particularly pronounced in the food & beverages sector, with food, grocery and allied products largely sourced from the local stores or hand cart vendors very close to home.

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**Table 3:** Retail Contribution to GDP

Although retail is a significant contributor to India's Economy		Organized retailing is still at a very nascent stage in India	
Country	Percent (%)	Country	Percent (%)
USA	32	USA	85
Brazil	22	Brazil	75
South Africa	17	South Africa	32
Vietnam	55	Vietnam	22
China	23	China	20
India	39	India	06

Source: An All India Retail Research Report An exhaustive analysis of factors influencing the FDI debate 2009

**Table 4:** Projected Size of the Organized Retail Industry

Year	Increase in size (in crores)
2008	965
2010	1728
2015	5610
2022	17368

Source: [www.nsdindia.org/pdf/organized-retail.pdf](http://www.nsdindia.org/pdf/organized-retail.pdf) Swot Analysis of FDI in Indian Retail Sector.\* Dr. B. S. Salunkhe

**Contribution to GDP**

The entire retail trade contributes about 14% to India's GDP and is valued at an estimated Rs 9, 30,000 crores. Out of this, organized retailing industry is around Rs 35,000 crores. Organized retailing is primarily urban centric, its share as represented in urban scenario is projected to be 12 to 20%. Growing at more than 30%, the organized sector is driving the retail growth in India and contributes significantly to the growth of the economy. This economic growth comes primarily from increased consumer spending. Modern retail in India could be worth US\$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US\$ 16.7 billion business, growing at over 20 per cent per year. The future of the India Retail Industry looks promising with the growing of the market, with the government policies becoming more favorable and the emerging technologies facilitating operations. It is clear from this data that India has a significantly lower percentage of organized retailing compared to other developing markets such as China with 20% of organized retail penetration, and Brazil with 75%. When compared to their respective retail sector contributions to GDP, India is higher at 39% than China and Brazil.

### Challenges before the organized retail sector

Retailing in India is gradually inching its way forward to become the next boom industry. But, the Indian educated class is yet to explore the options of a lucrative career in the organized retail sector. The challenges faced by the organized retail sector are:

1. Shortage of desirable talent and lack of skilled manpower.
2. The inefficiencies in the current supply chain and the presence of numerous intermediaries are difficult to curtail.
3. The quality of produce demanded by the consumer is still far from what our farmers produce.
4. The rapid growth of the organized retail segment is checked by the numerous clearances that are required to set up a retail outlet
5. Urbanization leads to changing consumer behavior. Local Population also becoming spenders rather savers.
6. Lack of basic infrastructure like roads, power, water etc. is a major shortcoming that needs to be addressed in order to procure as well as supply on a pan India basis.
7. India has more than 50 per cent of its population is young.
8. College students earn money at very young age. Usage of internet and television is increased. They are ready to pay high for quality products. Most of their income is spent of apparel, electronics and accessories.
9. Government is trying to implement uniformity in value added tax across the states but still various states are plagued with flexible tax rates. This leads to complexities in establishments of network.
10. India does not have established pattern of consumption throughout the country. It changes state to state. So retailers have to strategies for different sectors and segments.
11. It may include vendor frauds, thefts, shoplifting, and inaccurate supervision. These are the primary challenges that are difficult to handle even though having proper use of security techniques.

### Threats to current retailers

As retailing in India is attracting the attention of many global players, the Indian Government is paying increased attention to the country's retail environment. The first concern is the potential impact of large foreign firms on employment. Retail in India has tremendous growth potential, Retail is already the second largest employer in India and any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry and the chain will impact the governments growth and employment problems in a long term. A second related concern is that opening up FDI may lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business. A third concern raised by domestic incumbent firms in the organized retail sector is an infant industry argument that this sector is under-developed and in a nascent stage. In this view, it is important that the domestic retail sector grow and consolidate first, before being exposed to foreign investors. Domestic firms in this

sector oppose liberalizing retail to FDI as they view multinational companies as direct competitors.

### Threats to the foreign investors

Before investment approval is given, the application of foreign investors has to pass through various transfer channels which are dominated by the Bureaucrat. This is referred to as Red Tapsism. This results into delay in decision making regarding investment beginning. Delay in approvals leads to disinterested corporate giants. Corruption is another major concern. India has a number of anti-corruption cells and anti-corruption acts, but some foreign firms have identified corruption as one of the major obstacles to FDI in India. According to the report by World Bank, starting a business in India requires 11 procedures and median time is 71 days as compared to china, which has 14 procedures with a median time of 48 days.

### Opportunities before the retailing in India

FDI would serve the purpose of much needed capital and bring a boom in the Retail sector. Retail is a sunshine sector with tremendous growth potential allowing them to invest in retail companies in the primary market will enable many of these emerging companies to increase operations, improve infrastructure, set up the latest systems, achieve critical mass and enhance employment opportunities. The benefits and Impact on the country:

- Inflow of investment and funds.
- Growth of Infrastructure.
- Reduced Cost and Increased Efficiency.
- Franchising opportunity for local entrepreneurs.
- Increased local sourcing.
- Increase number and improve quality of Employment.
- Provide better value to end customers.

### Conclusion

The Indian consumer is looking for a relationship which these 'Kirana' shops have developed over the years and hence it would be difficult to displace them easily. Thus both organized and unorganized sector can live happily in this big market even in the future. But the government needs to carefully study all the pros and cons and come up with a comprehensive policy before allowing FDI in retail. E-commerce is expanding steadily in the country. Customers have the ever-increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the retail industry and this trend would continue in the years to come. India's e-commerce industry is forecasted to reach US\$ 53 billion by 2018. Retailers should leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier-2 and tier-3 cities. The Union Budget 2019-20 is expected to give boost to the rural consumption in India. It is projected that by 2021 traditional retail will hold a major share of 75 per cent, organised retail share will reach 18 per cent and e-commerce retail share will reach 7 per cent of the total retail market.

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