

Consumer Perspective on Changing Face of Indian Retail Industry

Neelam Gupta* and Gaurav Gupta**

ABSTRACT: Retailing provides a crucial link between producers and consumers in a modern market economy. The performance of this sector has a strong influence on consumer welfare. Retailers not only provide consumers with a wide variety of products, but also a wide range of complementary services (such as assurance of product delivery), which can lead to more informed choice and greater convenience in shopping. They also provide producers with much needed information on consumers demand pattern. Productivity and efficiency in retail operations lowers price level and reduce distortions in the price structure. Retailing is the largest private industry in India and second largest employer after agriculture. This sector contributes approximately 10 per cent of GDP and 6-7 per cent of employment. With over 15 million retail outlets, India has the highest retail outlet density in the world. This sector witnessed significant development in the past 10 years "C from small unorganized family-owned retail formats to organized retailing. Liberalization of the economy, rise in per capita income and growing consumerism have encourage larger business houses and manufactures to set up retail formats; real estate companies and venture capitalist are investing in retail infrastructure. Through backward and forward linkage, performance of retailing services affects the performance of interlinked sectors such as tourism, recreational and cultural services; manufacturing of consumers; goods and agro-good producing industries etc. The present paper is an attempt to explore retailing in India from consumer perspective.

Key words: Retailing, Consumers, Productivity

RETAILING: AN OVERVIEW

The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The Indian Retail Industry is gradually inching its way towards becoming the next boom industry. Retailing consists of the sale of goods/ merchandise for personal or household consumption either from a fixed location such as a department store or kiosk, or away from a fixed location and related subordinated services. Retailing is the world's largest private industry with an annual turnover of US\$ 6.6 trillion, accounting for over 8 per cent of the employment. Retailing is the largest private sector in India in employment. Today, next to agriculture

India has perhaps the highest retail outlet density with approximately 15 million retail outlets. The entire retail trade contributes to about 10-11 % of India's G.D.P. and is estimated with a value of Rs. 9, 30,000 crores. India displaced Russia to move from second to the first place. India's retail market, amounting \$ 300 billion, is vastly underserved and has grown at an average rate of 10% during the last 5 years. In 2011, Indian consumers spent Rs. 95000 crores on organized retail. The total consumer spending stood at Rs. 20 lakh crores. The organized retail spending has hogged all the attention with an annual growth of 34.8% between 2009 and 2011. The Indian retail industry has experienced a growth of 10.6% between 2010 and 2012 and is expected to touch to USD 750-850 billion by 2015. Food and Grocery is the largest category within the retail sector with 60 per cent share followed by apparel and mobile segment.

* Head of Home Science Department, SSD, Girls College, Bathinda, Punjab, India
E-mail: neelguptabti@gmail.com

** Research Fellow, Department of Economics & Sociology, Punjab Agricultural University, Ludhiana, Punjab, India
E-mail: gaurav_gupta986@yahoo.com

EVOLUTION OF INDIAN RETAIL INDUSTRY

In social as well as economical perspective, retailing plays an important role in the lives of its citizens. The retail industry is broadly classified into unorganized and organized retail. The unorganized retail sector is a traditional form of retailing with large number of small retailers consisting of local *kirana* shops, owner-manned general stores, footwear shops, apparel shops, *paan* shops. As far as the retail structure is concerned, 95% of the industry is unorganized and the remaining 5% accounts for organized one. The organized retail sector is a modern form of retailing with licensed retail outlets present in commercial places like supermarkets, hypermarkets, Malls, privately owned departmental stores etc. Some of the companies and stores in organized retail in India are Reliance fresh, Reliance super, Reliance trends, Reliance footprint, Reliance Mart, Big Bazaar, Spencer's daily, More, Nilgiris, Lifestyle, Pantaloons. The last 3-4 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities

REVIEW OF LITERATURE

The retail industry in India is mostly unorganized and it includes sole-owner managed general provision stores, convenient stores, handcart, paan shop and pavement vendors etc. Nielson and Technopark found that India has highest density of shops in the world. Soundaraj (2012) reported that retailing is the largest private sector in India and second in term of provision of employment, it comes next to agriculture. The organized retail is growing at the rate of more than 30% which implies that the unorganized retail is slowly converted into organized retail. It is also estimated that the retail contributes about 10-11% to the GDP of India. Gupta (2010) found that with the growing market demand, the Indian retail industry is emerging as the most promising market for investment and it is expected to grow at a pace of 25-30% annually. According to the Investment Commission of India, the retail sector is expected to grow almost three times as compared to its current level of \$660 billion by 2015. It is expected that India will be among the top 5 retail markets and the organized sector is likely to grow to \$100 billion mark and may account for 12-15% of retail sales by 2015.

MODERN CONCEPT OF RETAILING

The changing time has brought in outlets like convenience stores, mom and pop stores etc. 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. The size of India's retail market was estimated at US\$ 435 billion in 2010. Of this, US\$ 414 billion (95% of the market) constitutes traditional retail and the remaining US\$ 21 billion (5% of the market) was dominated by organized retail. 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. The retail business has evolved overtime. The industrialization British rule and globalization have all contributed to the present state of affairs of retail business. The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. 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 factors in the growth of the organized retail sector in India.

The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph. In India, the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants willing to enter into newer markets, which in turn will help the India retail Industry to grow faster. Indian retail is expected to grow 25 per cent annually. 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 has already made a business of US\$ 16.7 billion business, with annual growth of 20 per cent. 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.

OBJECTIVES

To study the changes in consumer behaviour with the changes in the Indian retail trends and to analyze the factors affecting the retailing changes in India.

RETAIL FORMATS IN INDIA

- **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.
- **Convenience stores:** are located in residential areas with slightly higher prices of goods due to the convenience offered.
- **Shopping malls:** the biggest form of retail in India, malls offer customers a mix of all types of products and services including entertainment and food under a single roof.
- **E-trailers:** are retailers providing online buying and selling of products and services.
- **Discount stores:** these are factory outlets that give discount on the MRP.
- **Vending:** it is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machine.
- **Category killers:** small specialty stores that offer a variety of categories. 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.

REGULAR HOUSEHOLD EXPENDITURE PATTERN

The expenditure of Indian consumer has grown annually at a constant rate of more than 11.50% for more than a decade. Mostly in developing nations, a large piece of the Indian consumer expenditure is on basic necessities, particularly, food related items. Hence, it is not astounding that food beverages, and tobacco accounted for as much as 50% of the consumption expenditure in 2008. The retail report during 2010 showed that food and grocery space is likely to be the most action oriented in the next three to five years. By 2019, consumers would buy grocery worth \$ 30 billion through the modern retail chains. So it is not wondered that heads of large global

corporation (super market and hyper market majors Tesco,) are flying down to India to plan strategies for early entry.

LIFESTYLES AND BUYING HABITS

Lifestyle in India is changing from austerity to absolute self-indulgence. This phenomenon can be ascribed to various factors like esteem of capitalism, dual-income nuclear family unit, a steady shift towards a credit-based market, and ambition of a global lifestyle. The consumer today spends to attain the feel good factor. Some of the direct beneficiaries of this phenomenon are fitness/ well being centre, food stuff, hospitality industries, and the voyage industry. For example last year six million Indian travelled abroad. Shopping has developed from a need based bustle to a leisure-time entertainment. Huge numbers of urban women, particularly from nuclear families are working. As a result, the notion of time poverty has crept in. Expediency is gradually overriding price consideration; this is particularly true for a certain group of urban households.

PRICE OR BRAND SENSITIVITY

For years, the level of brand/price tilted the price side. Today, the consumer is astute and equates brand to a certain extra value. India has patrons exhibiting their preferences for brands. This is pretty surprising in a nation like India, where past loyalties have altered for a 10% difference in pricing for price sensitive products. The Indian shopper is more price cognizant compared to most of his counterparts abroad-primarily on account of bitty market structure, and a lofty degree of differential pricing formation between national brands and unbranded goods. The Indian market is well distinguished by a strong existence of the unorganized and unbranded sector.

FARMERS & CONSUMERS BENEFITING

As the retail chain is entering food and grocery business, the entire gamut of markets and mandis is changing. Reliance retail, ITC, Subhiksha and Raheja's hyper city are buying bulk quantities of fruits and vegetables directly from the farmers' doorsteps and even booking future harvest. This has led to sharp decline in the business at Delhi's Azadpur mandi, the Asia's biggest vegetable and fruit market. Now these markets are getting 40% less arrivals. Even government procurement drive is also getting affected because of purchase of wheat by retailers like ITC and Cargil during harvest season. This year

also vegetables, onions, apples and mangoes are being purchased in bulk by these retail chains. Middleman is entirely out of scene and farmers are getting better prices for their products. Similarly urban consumers in towns like Delhi, Gurgaon and Noida are getting cheaper goods than from the traditional fruit and vegetable sellers. These happenings have created such a situation that today the general stores, usually stacked with barrels, bins and sacks filled with everything from soap to pickles have disappeared. Now these have been replaced by more refined, self-service 'cash and carry' organized retail stores in the form of supermarkets, department stores, shopping etc. These stores signify the beginning of organized retailing in India. Even then, the concept of retailing is still under-developed in India. The Indian retail market is quite large but highly fragmented, comprising of very few large retailers. It is estimated that there are approximately 1.8 million urban retail outlets in the unorganized sector. Out of which only 7% achieve a sales volume of over Rs. 8 lakh per annum. In fact, it is estimated that till date less than 2% of the retailing business in India comes from organized retailing. The percentage of food retailing from the organized retail sectors in India is even lesser than 1%. According to a study conducted by Kearney (2010), it was found that organized retailing accounted for only Rs. 20,000 crores, in a market size of Rs. 4, 00,000 crores in 2008 and out of which, food retailing is the most buoyant sector.

OPPORTUNITIES

Given that only 3% of the total retail market is organized, there is ample space and time to experiment with innovative formats and value propositions. There is enough space for many new players to co-exist. More opportunities to make Indian brand winning are: to leverage on alternative media as ITC and Coke do; to create buying power through credit; to price competitively as in the case of Ruf & Tuf; to exist unsustainably non core business; to focus on power brands as HLL does; and to think of alternative distribution models for a wider network Outsourcing is more and more talked about. For some years now, multinational retailers, like Wal-Mart, Carrefour, LI & Fung, JC Penney, Tesco and Nike have outsourced apparel and lifestyle products from India. Some of these retailers are looking at India to increase their sourcing commitments and are moving from third party sourcing offices to establishing their wholly owned/ managed sourcing

or buying office. Added to this is the trend of making India an export hub.

DAUNTING CHALLENGES

Some of the key challenges faced by the sector are:

(1) Shortage of skilled manpower

Front-end/retail assistant profiles in stores form a major proportion of the employment in the retail sector while store operations account for 75-80% of the total manpower employed in the organized retail sector. Unfortunately, there are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited. Further, retail training opportunities such as niche courses for areas like merchandising, supply chain and so on are limited. The condition is more alarming in the unorganized sector where the manpower is not equipped with even the basic level of retail specific and customer service skills, which adds to their incompetence vis-à-vis the organized sector. A cohesive effort to develop skills within the sector can have a significant potential impact on productivity and competitiveness, both within the sector and on the wider economy.

(2) Lack of industry status

Due to the absence of 'industry status', organized retail in India faces difficulties in procurement of organized financing and fiscal incentives. The Government should grant the much needed 'industry status' to the sector so that the sops that come with it help promote both big & small retailers.

(3) Policy induced barriers

Organized retail in India is managed by both the Ministries of Commerce & Consumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislations. There is a need to govern retail operations through a single apex body. A single agency can take care of retail operations more effectively, especially with regard to addressing the grievances of retailers. The development of the retail sector can take place at a faster pace if a comprehensive legislation is enacted.

(4) Real estate

Lack of sophisticated retail planning is another major challenge the sector faces. Available space is easily interchangeable between commercial and retail use. In most cities, it is difficult to find suitable properties

in central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.

EMERGING TRENDS IN RETAIL CONSUMER MARKETING

- Aggressive pricing strategies are coming up because the pricing of international products in India in relation to the per capital GDP is much higher compared with other countries in the Asia Pacific region
- Product variants such as 'sachet packs' are popular
- Competition and price wars rage even as regional players are also holding their own share against international brands.
- With the erosion of margins after price wars, the beaten companies now bet on market growth through improved infrastructure.
- Third party sourcing is relied on for better logistics and flexibility in production, inventory planning and control of labour costs and tax incentives in backward areas have helped Colgate , Britannia, Dabur, Godrej, HLL and Marico set up manufacturing facilities in Uttaranchal and Himachal Pradesh.

IMPLICATIONS

The distribution network in particular needs to be strengthened. It has been found that the large geographical spread is a problem and so are the logistics of connecting various regions. **"India is not like one country, it is like 25 different countries"**, one retailer said. Taxation barriers between states also hinder efficient regional distribution. Consumer goods companies are faced with various roadblocks with respect to distribution such as large geographic area, infrastructure constraints, distributor cost, fragmented market, lack of national distribution

networks and lack of distribution hubs. These are needed to be strengthened.

CONCLUSIONS

Though India is the last among the large Asian economy to liberalize its retail sector, a number of Indian retailers are entering this nascent, though dynamic market and numerous International names have evinced interest. Market liberalization and increasingly assertive consumers are sowing the seeds of a retail transformation that will bring bigger Indian and multinational players on to the scene. The supply chain and consumer interest and awareness in branded products have been built from scratch. India remains one of the last frontiers of modern retailing. The complexities of the vast and varied market will be a challenge. But the retailer who can shape the nascent retail market as well as adapt to India's unique characteristics will reap larger reward over the long term. It is clear that finally the winner in this retail rush is going to be the consumer.

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