

A STUDY ON RETAIL INDUSTRY IN INDIA



Dr.N.Vijayakumar

Head & Research Supervisor, PG and Research Department of Commerce
Sriram College of Arts and Science Perumalpattu, Veppampattu (R.S), Thiruvallur, Tamil Nadu

Abstract

Retail industry in India is the largest among all industries accounting to 10 per cent of the country GDP and employs around 8 per cent of the workforce. India has seen a drastic shopping transformation in terms of format and consumer buying behaviour. India has also been world's top sourcing destination in 2016-17 and the share in this category is 55 per cent. Our working population with a median age of 24 years, along with emerging opportunities in the retail sector is one of the major factors of the growth in the retail industry of India. As many new businessmen are entering the industry, there is expected to be a growth in the retail sector. India is still largely an unorganized retail market where maximum retailers operate in less than 500 sq. ft. of space. The total retail

industry is estimated at 9 lakh crore of which the organized sector accounts for a mere 9 per cent. GST taking its shape, it has helped the retailers simplify its tax structure. The global share of US and the UK retail markets is 19 per cent and 39 per cent, respectively, while its share in India is just 6 percent. It gives a tremendous opportunity for the homegrown label to expand its base. The high cost of real estate and non-availability of skilled labour in rural market are a few challenges to this industry. This study briefly presents an overview on the Indian Retail Industry: Growth, Trends, Challenges, and Opportunities.

Keywords: Retail Industry, India, Growth, Trends, Challenges, Opportunity, Business, GST

Introduction

The word 'Retail' has been derived from the French word 'retailer' which means 'to cut a piece off' or 'to break bulk'. Retailing can be defined as procurement of varied products in large quantities from various sources/manufacturers and their sale in small lots, for direct consumption to the purchaser. The evolution of retail trade in India can be traced to the times when majority of trade was routed through formats such as Haats, Mandis and Melas. Mostly organised on a periodical basis and limited to a particular locality/village, such formats gained prominence. The retail sector in India is emerging as one of the largest Market size over the past few years (USD billion) sectors in the economy By 2016 the total market size was USD 680 billion, thereby registering a CAGR of 7.45 per cent since 2000. Retail industry is expected to grow to USD1.3 trillion by 2020, registering a CAGR of 9.7 per cent from 2000 to 2020. The retail industry is a sector of the economy that is comprised of individuals and companies engaged in the selling of finished products to final consumers.

Types of Retailing in the Industry

Brick-and-Mortar Store Retailers - Those engaged in the sale of products from physical locations which warehouse and display merchandise with the intent of attracting customers to make purchases on site. Super markets, Hypermarkets, Departmental stores, Specialty stores, Convenience Stores, Discount Stores, Factory Outlets and Shopping Malls

Non-Store Retailers - Those engaged in the sale of products using marketing methods which do not include a physical location.

Table 1 Percentage share of organised and traditional retail in India

Year	Organised retail	Traditional retail
2008	3.3	96.7
2010	3.6	96.4
2012	4.1	94.9
2014	5.0	95.0
2016	8.0	92.0
2018 E	21.0	79.0
2020 E	24.0	76.0
Source: IOSR Journal of Business and Management		

From the above table reveals that an Organised retail in India witnessed a CAGR of 19-20 per cent. Organised retail is expected to account for 24 per cent of the overall retail market by 2020. This study briefly presents an overview on the Indian Retail Industry: Growth, Trends, Challenges, and Opportunities.

Importance of Retail Industry

Retail involves the selling of goods to customers. While meeting the needs of customers, following are some of the functions performed by a retailer. A vibrant retail sector benefits the consumers by providing range of products and services efficiently. Retailing can be done in either fixed locations or online. Retailing also helps to increase the living standards, Economic Development, Employment, Social Responsibility and enable the consumers to possess various goods, services and utilities.

Present Status of Indian Retail Industry

As per World Development Indicators database published by World Bank in February 2017, India is the 3rd largest economy in the world in terms of Purchasing Power Parity (PPP), only behind China and US. Indian GDP growth stood at 7% as on December 31, 2016 as mentioned by Central Statistics Office (CSO) and it is expected to be the same for FY17.

As per IMF, Indian economy is likely to grow by 7.2% in FY18 and 7.7% in FY19. This shows India's growth potential in Organized Retail Penetration also. Improving economy, changing demographic profile, increasing disposable incomes in hands of the middle class, changing tastes and preferences and growing urbanization along with rising discretionary spends are the main growth drivers in the organized retail market in India.

Within retail, the emerging sectors would be food and grocery, apparel, electronics, e-commerce, fashion and lifestyle. Incorporation of technology in the organised retail segment has been something to reckon with in the past few years. Use of computers for merchandise planning and management, control of inventory costs and supplies and replenishment of goods done electronically and internal store billing has changed the face of product retailing. India's modern consumption level is set to double within five years to US\$ 1.5 trillion from the present level of US\$ 750 billion. 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. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States today. Thus, with tremendous potential and huge population, India is set for high growth in consumer expenditure. With India's large 'young' population and high domestic consumption, the macro trends for the sector look favourable.

Table 2 Global Retail Sales Volume Growth Percentage Per Annum

Region	2013	2014	2015	2016	2017	2018
Asia and Australia	4.1	4.1	4.6	4.8	4.8	4.9
Africa	1.6	- 0.8	2.4	3.4	3.4	3.8
America	2.7	2.3	2.5	2.4	2.5	2.6

Europe	-0.7	0.6	0.8	0.9	1.0	0.9
Transition Economies	3.0	1.2	2.7	4.3	4.1	4.6
World	2.4	2.3	2.9	3.2	3.3	3.4

Source: Economic Intelligence Unit 2017

From the above table clearly indicates Asia's Retail industry always booming trends.

Table 3 Asia Retail Sales Volume Growth Percentage Per Annum

Countries	2013	2014	2015	2016	2017	2018
China	9.3	8.8	8.7	8.6	8.0	7.9
India	1.7	4.0	5.6	6.2	6.2	6.6
Japan	0.7	0.2	0.1	0.3	0.4	0.6
Pakistan	6.1	3.9	4.1	3.8	4.3	4.3
Singapore	1.2	1.7	2.5	2.9	2.4	2.9
Vietnam	3.8	9.5	8.4	7.8	6.0	6.5

Source: Economic Intelligence Unit 2017

From the above table clearly shows the Indian Retail industry always growing from 2013 to 2018.

Review of Literature

India has been ranked number one in A.T. Kearney's 2017 Global Retail Development Index, which ranks the top

30 developing countries for retail investment worldwide. According to the National Skill Development Corporation, India's retail sector will need around a workforce of around 56 million. The sector will have one of the highest incremental human resource requirements - of 17.35 million till the year 2022. The Indian Brand Equity Foundation (IBEF) estimates the industry to grow at a CAGR of over 17% over the next 4 years and reach USD 1,300 billion by 2020. However, with the Private Final Consumption Expenditure expected to grow by about 12.5% y-o-y till 2020 (has grown at about 10-12% historically) and GDP by 8.5-9%, CARE expects the retail industry to register a growth rate of about 12-14% over the next 4 years and reach about USD 1,150 billion by 2020.

According to panel members at the seventh Food and Grocery Forum India, the opportunities in food and grocery retail in India are immense, given that it constitutes about 69 per cent of India's total retail market. The Indian retail market, currently estimated at \$490 billion, is project to grow at a compounded annual growth rate of 6 per cent to reach \$865 billion by 2023. Modern retail with a penetration of only 5% is expected to grow about six times from the current 27 billion USD to 220 billion USD, across all categories and segments. According to India Retail Report 2017, over the past two years, 100 per cent cash and carry operations are gaining significance in India with Thailand's Siam Makro being the latest entrant in this space following Metro, Walmart and Booker. Furthermore, Swedish-furniture maker Ikea plans to open its lone distribution centre or warehouse in the country in Pune by end 2017 and its first store in Hyderabad by early 2018 with overall plans to invest USD 1.56 billion to set up 25 stores in India. In addition to the bigger retailer and brands, the mid-size brands from across the world are also looking to cash on the relaxed retail policy in India. Food as well as retail Brands such as Korres, Migato, Evisu, Wallstreet English, Pasta Mania, Lush Addiction, Melting Pot, Yogurt Lab and Monnalisa and many others from across the world, are expected to invest about USD 300-500 million cumulatively to open roughly 2,500-3,000 stores, the study said.

Objectives of the Study

1. To know the nature of retail industry in India
2. To study about the major and emerging retail formats in India
3. To highlight the recent trends in Indian retail industry and challenges and opportunities
4. To find valuable suggestion in improve the retail business in India

Research Methodology

The data, which is collected for the purpose of this conceptual study, is collected from various secondary sources i.e. Articles, government reports, newspapers, magazines and some websites.

Scope of the study

The study undertakes to analyse the current status of retail industry scenario in India only.

Reason for the Study

An increase in the double-income households trend, Large working population, Reasonable Real estate prices, Increase in disposable income and customer aspiration, Demand as well as increase in expenditure for luxury items, Growing preference for branded products and higher aspirations, Growing liberalization of the FDI policy in the past decade, Increasing urbanisation, Rising affluence amid consumers and Emergence of nuclear families. Now there is a customer called New Age Customer. Indian companies are making highly ambitious plans for set up large multi-brand retail operations.

Challenges

The Indian retail industry poses a unique set of challenges:

1. Strong Suppliers: Organised retail in India has been dominated by strong suppliers that have a strong hold over retail margins. Although the balance of power between suppliers and organized players is changing, organized retail's low contribution to the suppliers' overall business (ranging from 6-15% PwC Analysis, Public information) will continue to pose challenge on extracting higher intake margins.

2. Value conscious customers: Irrespective of the income strata, Indian customers are extremely value conscious. This in turn puts pressure on price points, resulting in lower size per transaction.

3. Competition from low cost traditional channel: Sandwiched between the strong suppliers and the value conscious consumer organised retailers have had to deal with strong competition from the traditional channel that not only operates at low cost but also has low margin expectations.

4. Higher costs on account of infrastructure challenges: With a geographically dispersed population, the distribution structure at a pan-India level is fragmented. Lack of proper infrastructure makes the cost to service stores very high.

Opportunities

Today, the organized players have ventured into each and every retail category. India's retail sector is witnessing accelerated growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. The purchasing power of Indian consumer is growing in categories like apparels, cosmetics, shoes, watches, beverages, food and even jewellery .Due to the large scope of business and high growth potential, India is attracting investors across the globe. The share of private label strategy in the US and the UK markets is 19 per cent and 39 per cent, respectively, while its share in India is just 6 percent. Thus this gives a tremendous opportunity for the homegrown label to expand its base. India's price competitiveness attracts large retail players to use it as a sourcing base. Many international retailers are increasing their sourcing from India and are moving from third-party buying offices to establishing their own wholly-owned/wholly-managed sourcing and buying offices. It would surprise nobody to say

that Asia will be driving the world's retail sales in the next five years. According to the retail report, the region's retail sales will grow by 8.5% in US dollar terms, higher than the global average growth rate of 5.6%. By 2018, it is estimated that Asian retail sales will amount to US\$10 trillion, much of which will be driven by India and China.

Findings and Conclusion

Indian Retail Industry has immense potential as India has the second largest population with affluent middle class, rapid urbanisation and solid growth of internet. India's retail market is expected to increase by 60 per cent to reach US\$ 1.1 trillion by 2020, on the back of factors like rising incomes and lifestyle changes by middle class and increased digital connectivity.

India's Business to Business (B2B) e-commerce market is expected to reach US\$ 700 billion by 2020. Online retail is expected to be at par with the physical stores in the next five years and has grown 23 per cent to \$17.8 billion in 2017. India's total potential of Business to Consumer (B2C) is estimated to be US\$ 26 billion, of which \$3 billion can be achieved in the next three years from 16 product categories, according to a study by Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Institute of Foreign Trade (IIFT).

The Indian retail trading has received Foreign Direct Investment (FDI) equity inflows totalling US\$1.09 billion during April 2000-September 2017, according to the Department of Industrial Policies and Promotion (DIPP). Investments by private equity firms in Indian retail sector reached US\$ 200 million in the first half of 2017, with seven new global brands entering India during the period.

Government of India has allowed 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services through the automatic route, thereby providing clarity on the existing businesses of e-commerce companies operating in India. On 7 December 2012, Government of India allowed 51% FDI in multi-brand retail in India.

Future of Retail Industry in India

The consumption story of India and ease of doing business have placed India at the top of the 2017 Global Retail Development Index, surpassing China. As a result, the organised retail market is slated to grow at a CAGR of 32% and 63% CAGR over the next 5 years—brick and mortar and e-retail respectively—achieving a 24% market share by 2020. India's top ranking and market predictions are clear signs of confidence in its vast growth potential. India has replaced China as the retail destination in 2017 as part of the global retail development index, according to industry experts. "India has replaced China this year as the top retail destination as part of the study on global retail development index," The future shows tremendous potential for growth in the retail sector. In future India will see a phenomenal growth of shopping malls and specialty retail stores. Retail Industry experts predict that the next phase of growth in the retail sector will emerge from the retail markets. The total number of shopping malls is expected to expand to the growth rate of 18.9 per cent by 2025. India is becoming a dynamic market with many international brands entering India to capitalize on the growing consumption pattern shown by the country. With right reforms and government initiatives, India retail industry is surely inching its way towards becoming the next boom industry. The future of the retail industry looks promising, as more and more Government policies have come into play, making it favourable to do business.

References

1. www.ibef.org/industry/retail-india.aspx
2. Agarwal, Vibhuti, Bahree, Megha (2011), "India puts retails reforms on hold". The Wall Street Journal, Pp15-17.
3. Annual Survey of Industries (2017), Economic and Political Weekly Research Foundation, Mumbai.
4. "FDI Policy in Multi Brand Retail", Ministry of Commerce, Government of India, 2017.
5. Reserve Bank of India (2016) RBI, Handbook of Statistics on the Indian Economy.
6. Gribson&Vedamani, Retail Management, Himalaya Publishing House
7. www.shoppingmall.com
8. www.indianmalls.com
9. www.indiaretailing.com
10. Kumar Pradeep, and Babu Suresh (2009), "Indian retailing: issues and challenges for new entrants", Delhi Business Review X Vol. 10, No. 1
11. Kearney, A.T. (2017), "Retail in India Getting Organized to Drive Growth", Report, Confederation of Indian Industry, New Delhi.
12. www.retailindia.typepad.com
13. Barry Berman and Joel R. Evans (2006), "An overview of Strategic Retail Management", Retail Management; A Strategic Approach, pp. 26-72
14. Shanthi A (2009) "organized retailing and wayward pricing", Delhi Business Review X Vol. 10, No. 2
15. Kushwaha S (2009), "organized retailing issues and challenges. Indian scenario", Delhi Business Review X Vol. 10, No. 1
16. Singh, K. (2014). Retail sector in India: Present scenario, emerging opportunities and challenges, IOSR Journal of Business and Management.
17. Care ratings. (2 June 2017), Indian retail industry - structure and prospects