

# Issues and Challenges in Retail Sector in India

Mukesh Goyat<sup>1</sup>, Manisha<sup>2</sup>, Anju<sup>3</sup>

<sup>1,2</sup>Research Scholar, Institute of Management Studies and Research (IMSAR),  
Maharishi Dayanand University, Rohtak – 124001, (Haryana), India

---

**ABSTRACT:** Present study provides brief information about the growth of retail industry in India. Present study will reviews the increasing awareness and brand consciousness among people diagonally different socio-economic classes in India as well as how urban and semi-urban retail markets are witnessing substantial growth. In India the enormous middle class and its almost unexploited retail industry are the key striking forces for global retail giants wanting to enter into newer markets, which in turn will support Indian Retail Industry to grow faster.

**KEYWORDS:** Retailing, Unorganized Sector, Organized Sector, GDP.

---

## INTRODUCTION

The India Retail Industry is the largest among all the industries, it generate 10 % of the country GDP and around 8% of the employment. The Retail Industry in India has come forth as one of the most energetic and fast stridden industries with several players entering in to market. But all of them have not yet tasted success because of the heavy investments at initial stage that are required to break even with other companies and compete with them. The India Retail Industry is gradually creeping its way towards becoming next boom industry. 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. Modern retailing has entered into the Retail market in India as is observed in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing workingwomen 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 helping the newer businessmen to enter the India Retail Industry. In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. Indian retail is expected to grow 25% annually. Modern retail in India could be worth US\$ 175-200 billion by 2016.

## REVIEW OF LITERATURE

Aggarwal (2008) point outs the appearance of organized retailing in India and opinions the Catalytic effects of retail on Indian Economy. It generate employment, Rise in disposable income and Development of retail auxiliary market are the various catalytic effects on Indian economy Growth of real estate. Tusharinani (2007) illustrious the transformation of traditional formats into new formats, by presenting departmental stores, hypermarkets, supermarkets, specialty stores and malls taking the pointer in inviting consumers in the metro cities. According to Hino (2010) emergence and expansion of supermarkets gradually decreased the market share of the traditional formats by displacing them and the factors that facilitated supermarkets in advancing consumers favors over the traditional stores are the 'consumers economic ability' and the 'format output'. The consumer has various alternatives to choose- ranging from the shopkeeper to supermarkets, departmental stores, plazas and malls which provide the latest and better quality products and it made India top spot among favoured retail destination as observed by Gupta (2004), Jasola (2007) and India Retail Report (2009). Goyal and Aggarwal (2009) opine that in India, a consuming class is emerging as a result of increasing income levels and dual career families with high disposable incomes.

The consequences reveal that a majority of the consumers are pro shoppers, feeling enjoyment during shopping. The study conducted by Mishra in 2008 gives the description that mall space, demography, rising young population, accessibility of brands, increasing retail finance, changing pattern of life, modern retail formats and FDI are powers and presenting opportunities for modern retail model. Shukla (2007) and Goyal et al (2009) pronounced that Food and Grocery; Health and

Beauty; Apparel; Jewellery and Consumer durables are the wildest growing classes of organized retail and fashion sector in India commands lion's share in the organized retail pie. The greatest suitable retail formats for several items include: Food and grocery-Supermarket; Health and beauty care services-Supermarket; Clothing and Apparels'- Mall; Entertainment-Mall; Watches-Hypermarket; Pharmaceuticals-Hypermarket; Mobile, accessories & Services-Hypermarket; Foot wares-Departmental store.

### **OBJECTIVES**

1. To know the widespread retail formats in India
2. To know the emerging retail trends in India
3. To know various growth trends in Indian retail sector

### **RESEARCH METHODOLOGY AND DATA COLLECTION**

Data is gathered from the secondary sources to achieve the aforesaid objectives. My research methodology is to collect Secondary data from bulletins, Chart Data Source is Economics times retail knowledge series, Source: AT KEARNEY.

### **CURRENT SCENARIO OF INDIAN RETAIL MARKET**

The size of Indian retail industry is more than US \$350 billion but most of retail outlets are unorganized. The organized sector has taken place developing in the past few years. Countless International brands have entered in to Indian market. With the progression in organized retailing, unorganized retailers are fast changing their business models.

### **GROWTH OF RETAIL INDUSTRY IN INDIA**

The organized retail market is growing at 3.5 % annually while growth of unorganized retail sector is fastened at 6%. The Retail Business in India is currently at the point of inflection. Quickly change with investments to tune of US \$ 25 billion is being planned by numerous Indian and MNC in the coming 5 years. According to the tenth report of GRDI of AT Kearney, India is having a very favorable retail environment and it is placed at 4th spot in the GRDI. The main reasons behind that is the 9% real GDP growth in 2010, forecasted yearly growth of 8.7% through 2016, high saving and investment rate and increased consumer spending. According to report, organized retail accounts for 7% of India's roughly \$435 billion retail market and is expected to reach 20% by 2020. Food accounts for 70% of Indian retail, but it remains under penetrated by organized retail. Organized retail has a 31% share in clothing and apparel and continues to see growth in this sector. A report by Boston Consulting Group has revealed that the country's organized retail is estimated at US \$ 28 billion with around 7% penetration. It is projected to become a US \$ 260 billion business over the next decade with around 21% penetration. The analysts believe that the sector is likely to show significant growth of over 9% over the next ten years and also see rapid development in organized retail format with proportion likely to reach more respectable 25% by 2018. The BMI India Report for the first quarter of 2012 released forecasts that total retail sales with growth from US \$ 422.09 billion in 2011 to US \$ 825.46 billion by 2015. The report highlights strongly underlying economic growth, population expansion, increasing disposable income and rapid emergence of organized retail infrastructure as major factors behind the forecast growth. The enormous growth of retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace. According to report titled "India Organized Retail Market 2010", published by Knight Frank, during 2010- 12, around 55 million square feet of retail space will be ready in Mumbai, NCR, Bangalore, Kolkata, Chennai, Hyderabad and Pune. Besides between 2010 and 2012 the organized retail real estate will be grown from existing 41 million square feet to 95 million square feet. The total no. of shopping mall is expected to expand at CAGR of 18.9% by 2015. Hypermarket, currently accounting for 14% of mall space is expected to witness high growth. Industry experts predict that the next phase of growth in the retail sector will emerge from the rural market. By 2012, the rural retail market is projected to have a total of more than 50% market share.

Data shown in Table 1, Table 2 and Table 3 is collected from Secondary sources. Therefore, these are in approximate figures. Chart Data Source is Economics times retail knowledge series

**TABLE – 1 Share Of Retail Trade In Gross Domestic Product (G.D.P.)**

Year	% of Share of Retail Sector
2007	8%
2009	12%
2011	22%
2013	24.6%

Source: AT KEARNEY

**TABLE – 2 Share of Organised Retail Sector in Total Retail Trade**

Year	% Share of Organised Retail Sector	Source
2005	3.5	AT KEARNEY
2008	5	Mc-Kinsey&Company
2010	8	AT KEARNEY
2013	10	AT KEARNEY

**TABLE -3 A Comparative Picture of GDP Contribution by Retail Sector**

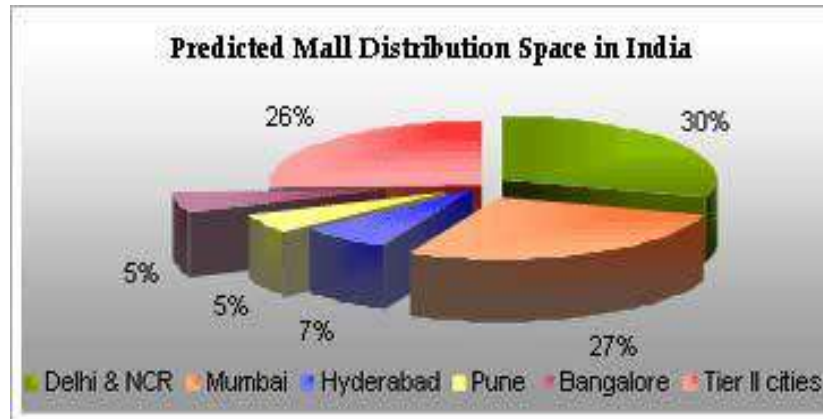
Country	Contribution of retail sector to GDP
USA	12%
India	12%
China	8-10%
Brazil	6%

On 10th Jan, 2012 Indian Government allow Foreign Investment to float and run wholly owned single brand retail stores even as the bigger reform measure opening multibrand retailing to international investors remains mired in political cobweb. Currently, FDI in retail trade is prohibited except in single brand retail trading in which upto 51% FDI is permitted, subject to certain conditions. The DIPP, part of ministry of commerce and Industry has now allowed FDI upto 100% in single brand product retail trading under the Govt. approval route. However the Govt. has put on hold provisions for 51% FDI in multibrand retail.

### **FACTORS DRIVING THE GROWTH OR RETAIL SECTOR**

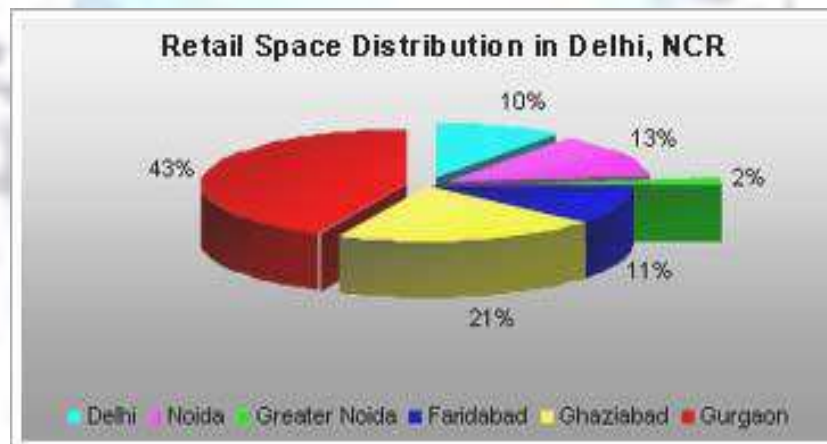
Indian economy is growing at the rate of 8%, indicating a prosperous future. With the growth in organized retailing, unorganized retailers have brought radical changes in their business models, many factor are responsible for the growth of retail sector. These are:

- **MOUNTING DISPOSABLE INCOME:** With rising in disposable incomes in middle class and lower middle class are the major cause of retail growth in India.
- **MOUNTING Number OF DUAL INCOME in NUCLEAR FAMILIES:** In India, substantial pay packets, nuclear family along with growing working women population and dual income in family are the major factors which contribute towards flourishing retail sector.
- **SHIFTING LIFESTYLE AND CONSUMER BEHAVIOR:** Due to rising working population, relaxed life and leisure are major drivers of growth in retail sector in India.
- **EXPERIMENTATION WITH FORMATS:** Due to competition in the market, retailing is still evolving and the sector is witnessing a series of experiments with new formats being tested out.
- **Availability of retail space:** Shopping malls and super markets are growing at a very faster rate because of improvements in infrastructure and availability of retail space.



- **Spend now vs. save earlier:** consumers are willing to borrow for present consumption, which has resulted in the emergence of big retail chains in most metros; mini metros and towns.

The retailing configuration in India is fast developing as shopping malls are increasingly becoming familiar in large cities. When it comes to development of retail space specially the malls, the Tier II cities are no longer behind in the race. If development plans till 2007 is studied it shows the projection of 220 shopping malls, with 139 malls in metros and the remaining 81 in the Tier II cities. The government of states like Delhi and National Capital Region (NCR) are very upbeat about permitting the use of land for commercial development thus increasing the availability of land for retail space; thus making NCR render to 50% of the malls in India.



### RETAIL FORMATS IN INDIA

- **Hyper marts/supermarkets:** large self-servicing outlets offering products from a variety of categories.
- **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.
- **Shopping malls:** are biggest form of retail in India, malls offers customers a mix of all types of products and services under a single roof.
- **E-trailers:** are retailers providing online buying and selling of products and services to customers.
- **Discount stores:** these are factory outlets that give heavy discount.
- **Vending:** items can be bought through vending machines.
- **Multi Brand Outlets:** offer a variety of categories, such as electronics goods.
- **Specialty stores:** are those retail chains dealing in specific groupings and offer deep assortment.



### **TRENDS IN THE RETAIL INDUSTRY**

- **Emergence of organized retail:** Real estate development in the country, for example, the construction of mega malls and shopping malls, is augmenting the growth of the organized retail business.
- **Spending capacity of youth of India:** India has a large youth population, which is a conducive environment to growth of this sector.
- **Raising incomes and purchasing power:** The per capita income in India has doubled between 2000-01 and 2009-10 resulting in improved purchasing power.
- **Changing mindset of customers:** The customer mind set is gradually shifting from low price to better convenience, high value and a better shopping experience
- **Easy customer credit:** Emergence of concepts such as quick and easy loans, EMIs, loan through credit cards, has made purchasing possible for Indian consumers, for products such as consumer durables
- **Higher brand consciousness:** There is high brand consciousness among the youth; 60% of India's Population is below the age of 30 leading to popularization of brands and products

### **EXPECTED FUTURE TRENDS IN THE RETAIL SEGMENT IN INDIA**

- **Growth in Small Cities and Towns:** Hard competition and saturation of urban markets is expected to drive domestic retail players to tap the potential in small cities.
- **FDI in Specialty Stores:** Multi-brand organized retail in specialty stores such as Footwear, Furniture and Furnishing.

### **CHALLENGES FACED BY THE ORGANIZED RETAIL INDUSTRY IN INDIA**

- **International Standards:** Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.
- **Inefficient Supply Chain Management:** Indian retailing is facing problem of efficient supply chain management.
- **Lack of Retail Space:** Maximum retail outlets in India have outlets that are less than 500 square feet in area.
- **Cultural Disparity:** India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. It is challenging in front of retailers will have to devise strategies for different sectors and segments.
- **Human Resource Problems:** shortage of trained manpower is a challenge facing the organized retail sector in India.
- **Frauds in Retail:** It is one of the primary challenges the companies would have to face like Frauds, thefts, and inaccuracy in supervision and administration.
- **Infrastructure:** The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major difficulty for retailers.
- **Distribution:** are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.
- **Complex Tax Structure:** The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores.
- **Currency Fluctuation:** In the past three months, the dollar/INR exchange rate has fluctuated by approx. 8 per cent. This may put considerable currency risk on any foreign investment in India.
- **Political Risk:** A political change in state and central governments puts a lot of political risk on investment in retail.

### **CONCLUSION**

India at the crossroads with regard to the retail sector. Numerous emerging market economies have gone ahead and reaped the advantages of modern retail. The retail sector has played a remarkable role throughout the world in growing productivity of consumer goods and services. The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country GDP and nearby 8 percent of employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. Politics is an unfortunate reality that has been coming in the way of success of organized sector and ultimately the overall retail sector. There is need of balanced approach to retail & govt. has to play a very vital role in shaping the future course. Though tradition retail has

been performing a vital function in the economy, but it has to shed off its shortcomings and inefficiencies and this is actually happening. Thus, the organized sector is not only impacting the other sectors positively but also it has benefited its own competition i.e. unorganized sector. So, organized sector becomes the growth mantra of Retail sector. 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 India Retail Industry is gradually inching its way towards becoming the next boom industry.

## REFERENCES

- [1]. Agarwal Pulkit, TyagiEsha, Foreign Direct Investment In retail Sector- An Analysis of Indian Retail sector.
- [2]. A.T. Kearney's Report on Indian Retail Business standard.
- [3]. David Gilbert, Retail Marketing Management, Prentice Hall, Second Edition, 2003.
- [4]. Goyal, B. & Aggarwal, M. 2009, Organized retailing in India- An empirical study of appropriate formats and expected trends. Global journal of Business Research, 3(2), pp77-83.
- [5]. Gupta, M. 2004, Brand Position of General Store from Consumer's Perspective- A comparative Study on Departmental Store and Traditional Shop. Proceedings of Conference on IPR, Thapar University, Patiala, March 25-26, 2004.
- [6]. Hindustan Times .
- [7]. Hino. (2010). Antecedents of supermarket formats` Adoption and usage: A study in context of non-western customers. Journal of Retailing and Consumer Services, 17(1), pp61-72.
- [8]. India Retail Forum.
- [9]. Jasola, M. 2007, Emerging Trends in Retail Sector. Journal of IMS Group, 4(2), PP. 22-28.
- [10]. Kothari.C.R, Research Methodology, New Age (P) Limited, Second Edition.
- [11]. Mishra, S. 2008, New Retail Models in India: Strategic Perspective Analysis. Journal of Marketing & Communication, 4(2), pp 39-47.
- [12]. Pillai & Bagavathi, Marketing management, New Delhi, sultan Chand & Sons.
- [13]. Retailing in the 21st Century: Current and Future Trends.
- [14]. US Dhanabhakya M, Shanthi A Indian Retail Industry – Its Growth, Challenges and Opportunities [www.articlebase.com/retail industry in India](http://www.articlebase.com/retail%20industry%20in%20India).
- [15]. Shukla, A & Jain, V. 2007, Paradigm shift of Indian Retailing: A Global Perspective. Journal of IMS Group, 4(2), pp 29-36.
- [16]. <http://www.coolvenues.net/forum/viewforum.php>.
- [17]. [www.ibff.org.com](http://www.ibff.org.com).
- [18]. [http://www.cci.in/pdf/surveys\\_reports/indias\\_retail\\_sector](http://www.cci.in/pdf/surveys_reports/indias_retail_sector) Krafft M and Mantrala, Murali K.