

Organized Retailing in India: Emerging Challenges and Strategies

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ABSTRACT

Retailing all over the world is witnessing far-reaching changes due to demographic shifts, changing customers' perception about shopping and technological advances brought about by liberalization and globalization. In today's environment professionally managed retail outlets i.e. supermarket, specialty stores, retail chains and hypermarkets etc. are gaining significant momentum throughout the world. These organized retail formats play a vital role in providing pleasant shopping experience, convenience of one-stop shopping with wider product portfolio at a single location, classy ambience in shopping, increased choice, better quality, hygiene and discount too if possible, thereby highly satisfying busy and convenience-oriented society. In India also, organized retailing is gradually inching its way towards becoming the next boom industry. It is in this perspective, the present paper makes an attempt to know what is the present market size and scope of retailing in India with particular focus on organized retailing, what type of opportunities are being presented by changing environment for the growth of organized retailing in India and what developments are taking in the retailing scenario as a consequent to emerging opportunities. The paper also highlights the challenges that are stymieing the smooth growth of organized retailing and suggests the possible strategies to cope with it. To achieve these objectives the whole paper has been segregated into eight sections.

I. INTRODUCTION

Retailing includes all the activities involved in selling goods or services directly to final consumers for personal and non-business use (Kotler and Keller, 2006: 504). It constitutes final link in the supply chain. It is noteworthy that retailing is not a new phenomenon rather it is as old as time. For instance, retailing in India has started with the concept of weekly markets, where all the traders gather at one big place to sell their products every week. The people come to these weekly markets to buy the household items for the next week. Village fairs and melas were also common as it has more of an entertainment value. Once the people started getting busy with their lives and when they turned entrepreneurial there emerged mom and pop stores and the kiranas (unorganized retail formats) in the neighborhood. After independence came into existence the system of public distribution of food through the ration shops, where food grains, sugar and oil for the daily consumption were distributed at subsidized rates through the government ration shops. Thereafter, organized retailing started recording its presence owing to the shifts in consumer behaviour and shopping revolution. Now a question that would arise is what constitutes the organized retailing.

Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax etc. It includes the corporate-backed hypermarkets and retail chains, and also privately owned retail businesses.

Organized retailing is being wholeheartedly accepted by almost every developed and developing nation in the world. Indeed, organized retailing not only provides an ideal shopping experience, excellent ambience and choice of merchandise for customers, it also contributes to the exchequer of the state, in addition to giving required fillip to tourism, exports and employment as well. Several studies have also identified that organized retailing assumes great significance in increasing the efficiency and productivity of entire gamut of economic activities and thereby achieving higher GDP growth. It is in context of growing importance of organized retailing that this paper makes an attempt to comprehensively study organized retailing scenario in India, including its growth, opportunities and challenges. Let's start first with a literature survey on this theme.

Objectives

The paper aims at achieving the following objectives:

- ❑ To identify the challenges those are stymieing the growth of organized retailing.
- ❑ To suggest possible strategies to seize the opportunities and cope up with the challenges.

Source of Data

To achieve these objectives secondary data has been tapped. Various books on retailing, articles in newspapers, magazines, periodicals, Journals and previous studies done by research agencies were extensively reviewed to get good insights into the concerned theme.

Retail Scenario

Before moving on the discussion on Indian retail scenario, let's discuss first global retail scenario, its major retail giants.

Global Retail Scenario:

Retail Industry is emerging as sunrise industry throughout the world contributing nearly 8% to 10% to GDP of a country. In addition to contributing in GDP, retail industry also plays a phenomenal role in generating employment across the world. US alone have over 20% of its employable workforce engaged in the retail sector as per an estimate. There are enormous retail players across the globe that are expanding their market globally such as Wal-Mart (U.S), Carrefour (France), Kroger (U.S.), Home Dept (U.S.), Ahold (Netherlands), Kmart (U.S.), Albertson's (U.S.), Sears (U.S.), Great Atlantic & Pacific (A&P) (U.S.), McDonalds (U.S.), 7 Eleven (U.S.), Jc Penney (U.S.), Tesco (U.K.), Aeon (Japan), Metro AG (Germany), Rewe (Germany) etc.

Indian Retail Scenario:

Retail is India's largest industry, accounting for about 11% of country's GDP and nearly 8% of the employment. Retail sector in India is on the verge of revolutionary changes with the emergence of organized 'modern' retail. Powered by changing lifestyles, rising disposable income, favourable demographics and credit friendliness organized retailing has started inching its way in India. In today's environment one can witness a spurt in the proliferation of malls and branded outlets in many cities because of huge investments by the corporate in the retail sector. The major domestic conglomerates are Pantaloon Retail, Shoppers' Stop, Reliance Retail, Aditya Birla Retail, Bharti Retail etc. Added to this, many international conglomerates have also ventured or planning to venture into the arena of Indian retailing, following the liberalized FDI policy measures undertaken by the Government since 2017. At present FDI in cash & carry wholesale trade upto 100% and in single brand retailing upto 51% is allowed. This has led international players such as Wal-Mart (U.S.), McDonalds (U.S.), Metro AG (Germany), Marks and Spencer (U.K.) etc. to enter the Indian retail industry through the route of joint venture, cash-and-carry and franchisee. The opening up of retail sector provides the domestic retail players with an opportunity to partner with foreign players to bring in the much needed capital, expertise and global best practices. However, organized retailing is still at a nascent stage in India contributing merely around 5% of the total retail which is abysmally low as compared to nearly 85% in USA, 80% in UK, 40% in Thailand or 20% in China (India Retail Report 2017).

Challenges before Organized Retailing in India

As discussed already, organized retailing in India is still very nascent as compared to that of in other nations. This can be attributed to the following major reasons:

Multiple Licenses: The requirement of multiple licenses and permits, which have to be obtained from different government departments, to open up a store is important issue facing the industry because it leads to considerable lead time in opening up of the stores and thereby increase in overall costs.

Lack of Infrastructure: Another factor that corporate retailers much be wary of is non-availability of core infrastructure like high-tech controlled production facilities, grading, packaging, cold chains, logistics, warehousing, integrated processing units, inefficient supply chain, poor transportation and erratic power supply. Lack of strong back-end support can make it difficult for corporate retailers to succeed in the cost-conscious market.

Lack of Uniform Tax: Retail industry is currently plagued with multiplicity of taxes. For instance some states levy entry tax; a few levy exit taxes; there is the central sales tax (CTS) on inter-state sales and value added tax (VAT) on different products. Differential tax system in different state leads to increased costs and complexities in the establishment an effective distribution system.

Lack of Trained Manpower: Trained manpower shortage is another challenge facing the organized retain sector in India. The Indian retailers have difficulties in finding trained manpower and also they have to pay more to retain them. This again brings down Indian retailers profit levels.

Real Estate Problems: Real estate is an integral requirement for large scale chain store operation. Some of the real estate related issues such as non-availability of government land, variations of zoning laws from state to state, lack of clear ownership titles, high stamp duty create serious difficulties in the path of development of organized retail stores.

Opposition from Unorganized Sector: Opposition raised by unorganized retailers and small traders against the entry of biggies in retail sector is one of major bottlenecks in the way to growth of organized retailing. In Ranchi hundreds of petty vegetable vendors and small traders ransacked three outlets of Reliance Fresh. Not just in Uttar-Pradesh, even in Kerala, Orissa and West-Bengal also there was stiff opposition against the opening up of Reliance Fresh stores. Given the violent attacks on the large stores by opponents, big players have to scrap plans to roll out hypermarkets in recent past.

To ensure stupendous development of organized retailing in India, these challenges need to be resolved. The next section highlights strategies to face these challenges.

Strategies for success

To foster the growth and ensure competitiveness of organized retail sector in an ever-changing marketplace the various unique strategic measures are required to be adopted both on the part of corporate retailers and Government. Let's discuss first what strategic measures need to be adopted by Indian corporate retailers: -

Strategic Measures need to be adopted by Indian Corporate Retailers:

In order to build sustainable competitive advantage, the Indian corporate retail players are suggested to adopt following measures as a part of strategic marketing management:

- **Effective Customer Service:** Customer service is the area of paramount importance, as it is excellent customer service, which keeps the customers returning to retailer, and generates positive word of mouth communication, which, in turn, attracts new customers and thus helps to gain competitive edge. So, in order to render better customer service, retailers are required to devise following strategies:
 - **Creating value proposition:** Customer satisfaction is largely influenced by the perceived value of the product and services that the customer experience. So the retailers should strive to enhance value proposition of its offering, particularly, on the basis of that parameters which are perceived as appreciable value additions by customers, for instance, free home delivery, small surprise gifts and free services etc. are the things that value the customers very greatly.
 - **Building mutual beneficial relationship:** To win the race of market supremacy, the retailers should try to build long lasting relationship with their customers. They can do this by serving each customer individually, displaying sincere interest in the customer, and remembering their preference etc. Anjaiah (2007) in his study also advised the retailers to increase their friendly relationship with their customers to get customer loyalty.
 - **Creating an unforgettable shopping experience:** Unique shopping experience can go a long way in attracting and retaining the customers, so the retailers should strive to make the shopping experience more rewarding for the customers by providing them faster delivery, enhancing physical appearance of store, performing the services at the designated time and giving quick response to customers' complaints. Lather and Kaur (2006) concluded that shoppers will visit those malls and like to spend hours where they feel malls are responsible for presenting and managing fantasy world what is called the best shopping experience.
 - **Strengthening the CRM:** CRM can support a lot the retailers in managing the relationship and serving their customers better, as it carefully manages all the customers touch points. So the retailers should focus on equipping the CRM with sophisticated and robust technology in order to become more receptive and responsible to customers requirement.
- **Merchandise Management:** To better compete; it is imperative for the retailers to develop competitive advantage through merchandise also. They can achieve it by adopting the following strategies:
 - **Introducing private label brands:** "Private labels brand is brand owned, controlled, merchandised and sold by specific retailer in its own stores" (Chavadi and Ganjali, 2007: 14). Private label provides the retailers an opportunity to differentiate their product mix from that of the competitors since private label products are available only with that retailer for e.g. if you buy Knighthood, AFL, Pink and Blue, you have to buy it from Big Bazaar. In fact, it is exclusivity of strong private label products that boosts store loyalty. Rucheera Gamber, senior consultant retail at consulting firm KSA Technopak rightly quoted that "In an era where all brands are available at different store formats, private labels are effective tool to distinguish merchandise".
 - **TQM (Total Quality Management):** Committing to TQM, the retailers can create differential advantage, as TQM systematically attempts to enhance the quality of outcomes by instantly focusing on quality improvements without incurring unacceptable costs increases.
- **Store Location, Design and Layout:** while deciding on these most crucial aspects following strategic measures must be taken into account:
 - Store should be located at such place that can be accessed by the customers in most convenient way.
 - Store design should be consistent with the image of store, should be flexible enough to accommodate seasonal changes and above all it should of positively influence the customer behaviour.
 - Gilbert (2007: 124) stated that store layout should be of such type that it would facilitate the movement of customers, create a planned store experience and allow the optimum presentation of merchandise.

- **Communication Mix:** To build sustainable advantage around communication mix, the retailers need to be consistent in reinforcing the customers over time and across all of the elements of its communication mix.
- **Supply Chain Management:** SCM encompasses procurement of inputs, in-bound logistics, conversion of inputs into finished products, physical distribution and channel functions, which finally take the end product to the ultimate consumers (Ramaswamy and Namakumari, 2007: 371). Each activity performed in supply chain management contributes to organization's value proposition. A firm can win the market by effectively managing all the activities of SCM. Superiority in SCM can be brought about by adopting following strategies:
 - **Value chain analysis:** Value chain analysis proposed by Michael E. Porter (1985) is a powerful tool for systematically examining all the activities performed by organization. With the help of value chain analysis a firm gets a grasp of its strength and weakness and hence can identify ways in which it can enhance the value, it creates and delivers, better than its competitors.
 - **Knowledge Management:** It enables the retailers to get useful insights into the costs and performance of competitor's value chain. This information, in fact, can prove very beneficial for the retailers, as by comparing the costs and performance of its value chain with that of its competitors the firm can identify where it stands in relation to competitors and thereby can develop competitive advantage in the area of its strength.
- **Human Resource Management:** Employees play a major role in providing high-level customer satisfaction and building customer loyalty, as the experience the most customers have with a retailer is determined by the activities of the human resources that they perform in entertaining the customers. Therefore, the retailer should extend due importance to their employees. Sam Walton also strongly believes that retail companies must also look after their employees well so that they, in turn, would look after their customers. So, in order to have committed and knowledgeable employees following strategies should be adopted:
 - **Motivation:** To maximum inspire the employees towards their works; they should be given financial and non-financial incentives such as rise in salary, appreciations and security of employment. Besides, the provision of performance-linked award should also be there.
 - **Training:** To enable them to perform their job effectively, they should be given training time-to-time.
 - **Empowering:** To make the employees committed towards the firm, they should be empowered to make decisions by sharing power and decision-making authority with them.
- **Effective Financial Management:** Retailing involves a lot of finance investment in terms of merchandise, real estate, infrastructure building investments, human resource which needs to be managed and optimized for better operational efficiency and a healthy ROI (Return on Investment) (www.forcesofindia.com). For effective financial management, corporate retailers are suggested to set ideal as well as flexible financial plans and policies in terms of the sources, usage and management of funds.
- **Tapping Rural Market:** In today's environment rural market constitute an attractive and sizeable market which is waiting to be served and ready to splurge (Indian Retail Report 2009). Furthermore, it is virgin and under-penetrated. With most of the markets getting saturated in tier I and II cities, rural markets provides corporate retailers an opportunity to carve out most profitable niches and emerge as market leader in that niche. Some of the corporate retailers that have already ventured into rural market are DCM's Hariyani Kisan Bazaars, Pantaloon Godrej's joint venture Aadhars, ITC's Choupal Sagars, Reliance fresh and Tata's Kisan Sansars etc.

Strategic Measures need to be adopted by Government:

The government can play an important in the development of organized retailing in India by:

- Granting industry status to retail to ensure the availability to easier finance facilities, fiscal incentives for investment in this sector and easier approvals & clearances to start businesses and branches.
- Simplification of the licensing and permit regime for organized retail. Move towards single window clearance system for getting all the licenses at one place to speed up the process.
- Harmonization of taxation norms and systems across the country. Though many initiatives have been taken by the Government, there is still need and scope to ensure central tax system.
- Permitting FDI in retail in a regulated and phased manner, as it will help to raise competitiveness of the Indian retail industry. Presently, Government is contemplating to allow 100 percent FDI in single brand and 51 percent in multi brand retailing. No doubt, FDI is imperative to make the domestic industry internationally competitive but to avoid the cut-throat competition between domestic and foreign players Govt. should have proper regulatory guidelines against the exercise of predatory pricing¹ and unfair trade practices by foreign players. Furthermore, it is important that Government should extend enough support to domestic retail to grow and consolidate first, before allowing foreign investment in multi-brand retailing.
- Allocating special Economic Zones/ Tax holidays for building warehouses and establishment of adequate cold chain facilities.
- Organizing market for real estate through proper rent laws and increased land supply etc.

- Amicably resolving the issues raised by unorganized traders against the entry of big corporate players in retailing sector. For this purpose, Govt. is required to identify which issues are of significant concern and which are just only myths. To mitigate the myths it should educate the people about the importance of organized retailing. To resolve the genuine issues it should sort out possible solutions. For instance, to avoid the fear of unemployment among the small traders Govt. should have such policy, which would ensure them that there would be no dislocation of existing employment without providing alternative employment opportunity.

II. CONCLUDING REMARKS AND IMPLICATIONS

All in all, it can be concluded that increased customer demand for modern gadgets, rise in propensity to consumed than save, increase in durable income, emergence of affluent rural market and IT solutions are fuelling the growth of organized retailing in India. Powered by these opportunities a large no. of big corporate houses such as Piramals's, Pantaloon, Tata's, ITC, RPG, and Reliance etc. have made their foray into this arena, with beauty and health stores, specialty stores, supermarkets and hypermarkets. However in spite of this momentum that the organized retailing is gaining, its growth rate in India is not at the same rapid pace as in other emerging market owing to lack of infrastructure, opposition from unorganized sector and unavailability of good quality of real estate etc. In this view combined efforts by both government and Indian corporate retailers are very much necessary for ensuring smooth development of organized retail industry in India. The Government is required to accord the organized retailing an industry status, provide incentives in order to boost investment in organized retail sector and allay the opposition of unorganized sector by adopting appropriate strategies. The Indian corporate retailers are required to keep running, to remain innovative, to keep watching what others are doing, to look to the market trends, and to keep enhancing their strategies to win the market supremacy. The final message of this study is that there is need to adopt sound and appropriate strategies to enable the organized retailing to achieve success in India.

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