

IMPACT OF GLOBAL RETAIL ENVIRONMENT IN INDIAN RETAIL INDUSTRY

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Abstract

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country. GDP and around 8 per cent of the 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. 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.

Keywords: Retail Market, Household Expenditure, Global Retail Player

INTRODUCTION

India had a highly significant election in 2014, resulting in the election of Narendra Modi as Prime Minister. For the first time in more than 30 years, a Prime Minister's party has a majority in the Parliament, thus boosting prospects for enacting reform legislation. Yet in his first six months in office, not much reform legislation was proposed, disappointing supporters who were euphoric following Modi's victory. They are hoping he will deregulate industry and labor markets, reduce costly subsidies, boost infrastructure investment, negotiate freer trade and ease restrictions on foreign investment. If he does these things, India's growth outlook will likely improve dramatically. Meanwhile, growth is recovering from its doldrums but remains below potential. The central bank has managed to reduce inflationary expectations, which should have a positive impact on growth.

GLOBAL RETAIL SCENARIO

Retailing has played a major role in the global economy. In developed markets, retailing is one of the most prominent industries. In 2008, the US retail sector contributed 31% to the GDP at current market prices. In developed economies, organised retail has a 75-80% share in total retail as compared with developing economies, where un-organised retail has a dominant share.

Leading global retail players by revenue

Sr. No.	Company name	Country	Banner sales 2007E (In (US\$ million)	No. of outlets, 2007
1	Wal-Mart Stores	US	395,305	7,331
2	Carrefour	France	142,229	13,419
3	Tesco	UK	103,573	3,750
4	Metro Group	Germany	102,942	2,541
5	Seven & I (ii)	Japan	84,375	22,590
6	Kroger	US	73,633	3,672
7	AEON (i)	Japan	73,416	14,803
8	Target	US	71,125	1,591
9	Schwarz Group	Germany	70,969	8,575
10	Costco	US	69,704	518

Note: Banner consists of food and non-food sales
Source: Planet Retail

Global retail sales was estimated to be around US\$ 12 trillion in 2007; however, in 2008, the slowdown in the global economy, especially in the US, and credit crunch, decreased consumer spending. On a global level, the economy performed robustly till 2007, but the US crisis spread over to Europe in early 2008, and its impact was felt in the Asia-Pacific region by mid-2008.

India has the highest number of retail outlets in the world at over 13 million retail outlets, and the average size of one store is 50-100 square feet. It also has the highest number of outlets (11,903) per million inhabitants. The per capita retail space in India is among the lowest in the world, though the per capita retail store is the highest. Majority of these stores are located in rural areas.

Total number of retail outlets in select countries (in '000)

Country	2002	2003	2004	2005	2006	2007
India	11,689.0	12,049.8	12,408.8	12,770.8	13,122.1	13,448.5
China	5,463.7	5,208.1	4,854.1	4,635.7	4,503.2	4,496.3
Brazil	976.1	1,006.6	1,071.5	1,122.9	1,157.6	1,188.3
Russia	437.5	447.4	456.3	466.0	475.1	480.8
USA	923.5	923.7	934.3	945.8	946.5	946.2
UK	314.6	312.0	308.3	302.1	298.3	295.1
France	416.9	411.7	409.2	407.1	406.7	406.5
Germany	288.0	286.2	284.2	283.0	281.8	281.8

Source: Euromonitor

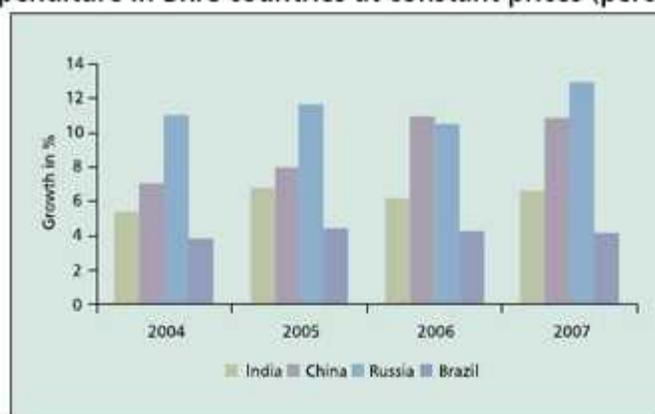
EVOLUTION OF ORGANISED RETAIL

The share of organised retail in developed countries is much higher than developing countries like India. In 2006, the share of organised retail in the US was around 85%, in Japan it was 66%, in the UK it was 80%, while in developing countries like India, China and Russia it was 6%, 20% and 33%, respectively. The concept of organised retail had occurred much later in developing economies than the developed economies. Modern day retail came into existence in three successive waves. The first wave took place in the early to mid-1990s in South America, East Asia excluding China, North Central Europe and South Africa. The second wave of organised retail occurred during mid-to-late 1990s in Mexico, Central America, South-east Asia and South Central Europe. The third wave of organised retail boom started in the late 1990s and early 2000 in some parts of Africa, Central and South America, South-east Asia, China, India and Russia and continues to grow at a rapid pace.

RISING HOUSEHOLD EXPENDITURE IN BRIC COUNTRIES DRIVES ORGANISED RETAIL

The household expenditure in Brazil, Russia, India and China, or the BRIC countries, is growing at a faster rate than the developed countries like the US, UK, Japan, Germany, and France, indicating the higher growth potential for the retail sector in these countries that have a large consumer base. Household expenditure (at constant prices) in developed countries like the US, UK, Germany, and Japan has witnessed an average annual growth of 3.2%, 2.5%, 0.2%, and 1.0%, respectively, during 2004-2007, but the expenditure in the BRIC countries has been much higher. The developed countries are witnessing a continuous fall in domestic demand and high dependence on export earnings, which are the reasons for lower household expenditure. In current times, the global demand is weakening, owing to economic slowdown, and this worry is looming large over the retail sector.

Household expenditure in BRIC countries at constant prices (percentage growth)



Source: UN Statistical Division, D&B Research

The consumer market in the developed countries is saturating, and therefore, big retail companies in those countries are increasingly expanding their footprint in emerging countries like India, China, and Russia. Even though 100% FDI is not permitted in the retail sector, India continues to attract leading global retailers to start retail business through local alliances. For example, recently, Wal-Mart has opened its first store at Amritsar (Punjab) in a joint venture (JV) with Bharti Enterprises, and it is also planning to expand its footprint to other parts of India. The fact that the penetration of organised retail in BRIC countries is much lower than the developed countries is acting as an added advantage for these retail giants.

MAJOR GLOBAL RETAIL MARKETS

This section provides a brief overview on the retail industry in major global markets on the basis of phases of retail lifecycle. Organised retailing in most economies typically passes through four distinct phases:

- In the first phase, new entrants create awareness of modern formats like hypermarket, supermarket, department stores etc and raise consumer expectations
- In the second phase, consumers demand more modern formats as the markets develop, thereby leading to a strong growth
- In the third phase, the high rate of growth leads to a stage of mature market
- In the final phase, the domestic market reaches a saturation point leading to limited growth, so retailers explore and evaluate new markets across the globe.

INDIAN RETAIL MARKET

The Indian retail market has seen considerable growth in the organised segment. Major domestic players have entered the retail arena and have ambitious plans to expand in the future years across verticals, formats, and cities. For example, companies like Reliance, Tata, Bharti, Adani Enterprise, have been investing considerably in the booming Indian retail sector. Besides, a number of transnational corporations have also set up retail chains in collaboration with big Indian companies.

The Indian retail sector is highly fragmented and the unorganised sector has around 13 million retail outlets that account for around 95-96% of the total Indian retail industry. However, going forward, the organised sector's growth potential will increase due to globalisation, high economic growth, and changing lifestyle. Moreover, high consumer spending over the years by the young population (more than 31% of the country is below 14 years) and sharp rise in disposable income are driving the Indian organised retail sector's growth. Even small towns and cities are witnessing a major shift in consumer lifestyle and preferences, and have thus emerged as attractive markets for retailers to expand their presence. Although the growth potential in the sector is immense, it is not without challenges that could slow the pace of growth for new entrants. Rigid regulations, real estate costs, high personnel costs, lack of basic infrastructure, shrinkage, and highly competitive domestic retailer groups are some such challenges. Additionally, resource constraints at shopping mall projects are also delaying completion and disrupting many retailers' entry strategies.

INDIAN RETAIL INDUSTRY – AN OVERVIEW

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) was traditional retail and US\$ 21 billion (5% of the market) was 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 US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets. As India's retail industry is aggressively expanding itself, great demand for real estate is being created. The cumulative retail demand for real estate across India is expected to reach 43 million square feet by 2013. Around 46 per cent of the total estimated demand between 2009 and 2013 will be come from Tier-1 cities.

For instance, Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future. Some of the key players in the Indian retail market, with a dominant share are: 1) Pantaloon Retail Ltd, a Future group venture: Over 12 mn sq. ft. of retail space spread over 1,000 stores, across 71 cities in India. 2) Shoppers Stop Ltd: Over 1.82 mn sq. ft. of retail space spread over 35 stores, in 15 cities. 3) Spencer's Retail, RPG Enterprises: Retail footage of over 1.1 mn sq. ft. with approx 250 stores, across 66 cities. 4) Lifestyle Retail, Landmark group venture: Has approximately 15 lifestyle stores and 8 Home centres.

Other major domestic players in India are Bharti Retail, Tata Trent, Globus, Aditya Birla 'More', and Reliance retail. Some of the major foreign players who have entered the segment in India are – Carrefour which opened its first cash-and-carry store in India in New Delhi. - Germany-based Metro Cash & Carry which opened six wholesale centres in the country. - Walmart in a JV with Bharti Retail, owner of Easy Day store—plans to invest about US\$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country. - British retailer Tesco Plc (TSCO) in 2008, signed an agreement with Trent Ltd. (TRENT), the retail arm of India's Tata Group, to set up cash-and-carry stores. - Marks and Spencers have a JV with Reliance retail.

CHALLENGES AND OPPORTUNITIES

Retailing has seen such a transformation over the past decade that its very definition has undergone a sea change. No longer can a manufacturer rely on sales to take place by ensuring mere availability of his product. Today, retailing is about so much more than mere merchandising. It is about casting customers in a story, reflecting their desires and aspirations, and forging long-lasting relationships. As the Indian consumer evolves they expect more and more at each and every time when they step into a store. Retail today has changed from selling a product or a service to selling a hope, an aspiration and above all an experience that a consumer would like to repeat.

For manufacturers and service providers the emerging opportunities in urban markets seem to lie in capturing and delivering better value to the customers through retail. For instance, in Chennai CavinKare LimeLite, Marico Kaya Skin Clinic and Apollo Hospital Apollo Pharmacies are examples, to name a few, where manufacturers/service providers combine their own manufactured products and services with those of others to generate value hitherto unknown. The last mile connect seems to be increasingly lively and experiential. Also, manufacturers and service providers face an exploding rural market yet only marginally tapped due to difficulties in rural retailing. Only innovative concepts and models may survive the test of time and investments.

However, manufacturers and service providers will also increasingly face a host of specialist retailers, who are characterized by use of modern management techniques, backed with seemingly unlimited financial resources. Organized retail appears inevitable.

Retailing in India is currently estimated to be a US\$ 200 billion industry, of which organized retailing makes up a paltry 3 percent or US\$ 6.4 billion. By 2010, organized retail is projected to reach US\$ 23 billion. For retail industry in India, things have never looked better and brighter. Challenges to the manufacturers and service providers would abound when market power shifts to organized retail.

RECENT TRENDS

- Retailing in India is witnessing a huge revamping exercise as can be seen in the graph
- India is rated the fifth most attractive emerging retail market: a potential goldmine.
- Estimated to be US\$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 percent or US\$ 6.4 billion
- As per a report by KPMG the annual growth of department stores is estimated at 24%
- Ranked second in a Global Retail Development Index of 30 developing countries drawn up by AT Kearney.
- Multiple drivers leading to a consumption boom:
 - Favorable demographics
 - Growth in income
 - Increasing population of women
 - Raising aspirations: Value added goods sales
- Food and apparel retailing key drivers of growth
- Organized retailing in India has been largely an urban
- Phenomenon with affluent classes and growing number of double-income households.
- More successful in cities in the south and west of India. Reasons range from differences in consumer buying behavior to cost of real estate and taxation laws.
- Rural markets emerging as a huge opportunity for retailers reflected in the share of the rural market across most categories of consumption
 - ITC is experimenting with retailing through its e-Choupal and Choupal Sagar rural hypermarkets.
 - HLL is using its Project Shakti initiative leveraging women self-help groups to explore the rural market.



- Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets.
- IT is a tool that has been used by retailers ranging from Amazon.com to eBay to radically change buying behavior across the globe.

CONCLUSION

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country. GDP and around 8 per cent of the 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. 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.

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