



A STUDY OF TRENDS IN ORGANISED RETAIL SECTOR IN INDIA

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ABSTRACT

Retail Industry in India is at an interesting juncture today. It is standing at the cusp of unlocking new frontiers, auguring a potential that is riding high on technology. A nation of 1.25 billion people portended a big consumption market, being one of the youngest countries in the world that is increasingly tech-savvy and open to experimentation worked well in favour of the e-tailing phenomenon. There is ample dynamism at present, with international brands entering in the market. The existing brands are also working towards reinventing ways to keep up with the pace of growth in the sector. Currently, the total retail spending in the top six retail markets in the country amounts to, INR 4539 bn and this is projected to reach INR, 7168 bn by 2019. The penetration of modern retail will also witness a substantial rise from the current 19% to 24% in next three years in top six retail markets of the country. This paper focused on changing face of Retail Industry, organized and unorganized retail industry, penetration of modern retail and trends in Retail sector.

Keywords: Retailing, Retail industry Unorganized Sector, Organized Sector, Penetration of Modern Retail.

INTRODUCTION

The Indian retail industry is one of the fastest growing in the world. Retail industry in India is expected to grow to US\$ 1.3 trillion by 2020, registering a Compound Annual Growth Rate (CAGR) of 16.7 per cent over 2015-20. India is the fifth largest preferred retail destination globally. The country is among the highest in the world in terms of per capita retail store availability. India's retail sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. Healthy economic growth, changing demographic profile, increasing disposable incomes, urbanisation, changing consumer tastes and preferences are the other factors driving growth in the organised retail market in India. India's population is taking to online retail in a big way. The online retail market is expected to grow from US\$ 6 billion to US\$ 70 billion during FY15-FY20. Increasing participation from foreign and private players has given a boost to Indian retail industry. India's price competitiveness attracts large retail players to use it as a sourcing base. Global retailers such as Wal-Mart, GAP, Tesco and JC Penney 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.

The Government of India has introduced reforms to attract Foreign Direct Investment (FDI) in retail industry. The government has approved 51 per cent FDI in multi-brand retail and increased FDI limit to 100 per cent (from 51 per cent) in single brand retail, and plans to allow 100 per cent FDI in e-commerce, under the arrangement that the products sold must be manufactured in India to gain from the liberalised regime.

OBJECTIVES

- 1) To analyse the present structure of Indian Retail Sector and changes therein during last few years.
- 2) To study the emerging Retail trends in India and their reasons.
- 3) To study the scope of expansion in organised Retail Sector.
- 4) To understand the evolution and future prospects of Modern Retail Sector in India.
- 5) To study the effect of Demonetization and GST on Retail Sector.

RESEARCH METHODOLOGY

The present study is based on secondary data and information collected from a variety of sources. An attempt has been made in the present study to make a systematic analysis of changes in the size and structure of Indian retail market over last few years. This analysis is

useful to understand the expected future changes in the Indian retail market and the implications of recent policy changes adopted by Government of India. Collection and compilation of data and information is from various books, trade journals, government publications, Industry Reports, newspapers etc. and research is descriptive in nature. Data is presented in the form of tables and analyzed in form of percent trends and charts.

LITERATURE REVIEW

Several studies have been undertaken in the field of retail sector in India. Besides, one may also find articles in newspapers, business magazines relating to retail sector in India. Few of them are mentioned here.

Subhadip Mukherjee's (2011) study examines the government policies of different countries including India in respect of unorganized and organized retail sector. The study finds that small as well as big domestic retail chains had been helped by the governments of different countries (including India) through formulating appropriate policies over time, by providing capital support and/or formulating strict legislations to restrict entry of foreign retailers in their respective countries.

There are exciting times for Indian Retail. Markets in Asian giants like China are getting saturated, the **AT Kearney's (2013)** Global Retail Development Index (GRDI), for the third consecutive year placed India the top retail investment destination among the 30 emerging markets across the world. Commercial real estate services company, CB Richard Ellis' findings state that India's retail market has moved up to the 39th most preferred retail destination in the world in 2009, up from 44 last year. The recent growth spurt was achieved primarily through a surge in productivity and is sustainable. Similarly, the study undertaken by ICRIER estimates that the total retail business in India will grow at 13 per cent annually from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12. The consumer has multiple options to choose- ranging from the shopkeeper to the most sophisticated supermarkets, departmental stores, plazas and malls which provide the latest and better quality products and it made India the top spot among the favoured retail destination as observed by **Gupta (2004), Jasola (2007) and India Retail Report (2009)**.

Corporate Catalyst India (2009), focuses on segment analysis of Indian retail market, Key players and profiles of Key players, business models for entry in Indian markets and opportunities and challenges in retailing. Expressing experts opinion, the report states that in future, the retail industry in India will be a major employment generator.

Dun & Bradstreet (2009) A report titled “Indian Retail Industry: Challenges, Opportunities and Outlook”, published by the world’s leading source of global business information, describes the Global Retail Scenario, Evolution of organised retail, Size of the Indian retail industry, Industry segmentation, and Regulatory Framework.

Deloitte (2011) a business specialist and consulting firm has also published some reports containing several aspects relating to retail sector in India. The report titled “Indian Retail Market Embracing a new trajectory”. The report states that although all the retail segments offer growth opportunities for foreign retailers, the largest opportunity in terms of potential market size and scalability is in grocery retailing, particularly for the supermarket and hypermarket formats.

Delloite (2013) An another report published, titled “Indian Retail Market Opening more doors” is mainly focused on government policy on multi-brand retail trade-its evolution, policy implications and political landscape with respect to new FDI policy . The report states that various policy conditions for FDI in multi-brand retail makes mass grocery and apparel the two most favourable segments. Research article titled “Sector Profile”, gives a brief description of current status of the retail sector, its future scope and challenges faced by the sector .

The main drivers, trends and issues in India’s retail sector states that large size of Indian retail market, low organised retail penetration, strong GDP growth, increasing personal incomes, large number of aspirational consumers (middle-class, young Indians, rural population, etc.) make India an exciting and dynamic retail destination.

ASA and Associates’(2012) report titled “A Brief Report on Retail Sector in India”, gives an overview of India’s retail sector, growth in retail sector. It also describes government policy with respect to retail sector and major global players in Indian retail .

FICCI PWC report (2017), “Shaping consumer trends” focuses on changing consumer trends in India, adoption of analytics in the retail and FMCG space and growth strategies of home grown companies and a shift in consumer purchase behaviour towards indigenous products.

Knight and frank (2017) “Think India think connected retail 2017 “a research conducted to analyse the retail trajectory till present and peeked into the future, estimating the potential market size. In addition, it has delved deep into the omni-channel approaches adopted by companies, encompassing lessons from across the globe. According to the research, currently, the total retail market size in the top six retail markets of the country amounts to

INR 4,539 bn and this is projected to reach INR 7,168 bn by 2019. Out of the total retail spending in the top six retail markets of the country, modern retail amounts to INR 871 bn and this is projected to reach INR 1,718 bn by 2019. The penetration of modern retail will also witness a substantial rise, from the current 19% to 24% in the next three years in the top six retail markets of the country, largely driven by the Omni-channel way of retailing.

RETAIL SECTOR AND GDP

According to BCG Analysis the contribution of retail sector to Indian GDP is amongst the highest in the world. Mostly developed markets in the world has retail sector revenue of 15-20% of overall GDP, whereas for India it is around 25%, while the contribution of retail sector in USA, China and Brazil was 16.3%, 18.8% and 16.5% respectively, which is manifested below:

Table No. : 1

Country	Retail Sector's share in GDP in %
India	25
South Africa	24.5
Japan	23.3
France	19.0
China	18.8
United Kingdom	18.6
Mexico	17.8
Indonesia	17.0
Malaysia	16.9
Brazil	16.5
USA	16.3
Germany	14.8

Source: Euro monitor

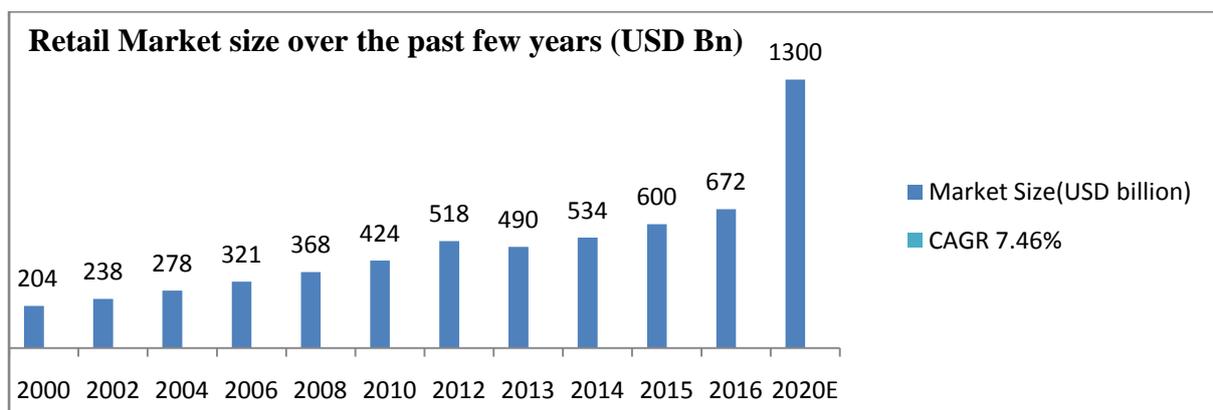
The above table states clearly that retailing in India is superior than those of its contenders. Retail sector is a sunrise industry in India and the prospect for growth is simply huge. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

India has the highest number of retail outlets in the world at over 15 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.

TRENDS IN RETAIL SECTOR

- ✓ The retail sector in India is emerging as one of the largest sectors in the economy.
- ✓ The total market size was estimated to be around USD 672 billion in 2016.
- ✓ Retail industry is expected to grow to USD 1.3 trillion by 2020, registering growth at a CAGR of 7.46 per cent between 2000 - 2016.
- ✓ Consumer expenditure is rising because of increase in income and demand. It is estimated to rise USD 3.6 trillion by 2020 from USD 1.25 trillion in 2015.
- ✓ The modern Retail Market expected to grow 3 times in next five years from USD 60 billion to USD 180 billion.
- ✓ FMCG market shows an upward trend from USD 49 billion in 2016 to USD 103.7 billion by 2020
- ✓ Online Retail Revenue will grow to USD 70 billion by 2020 from USD 6 billion in 2015.
- ✓ Supermarkets no. has increased from 500 in 2006 to 8500 in 2016.
- ✓ Cumulative FDI inflow in Retail for September 2016 were USD 909.12 million and further expected to increase with the entry of Thailand's Siam Makro, Metro, Walmart and Booker.

Table No.: 2



Source: BCG retail 2020, Ernst & Young, Deloitte, India Retailing.com, Economic Intelligence Unit, Euro monitor, Tech Science research

Reasons for Increasing Trends in Retail

- ✓ Demand is increasing with healthy economic growth, leading to increasing disposable income and change in consumers taste and preferences that contributes to growth of organized Retail Market in India.
- ✓ Easy financing from banks and financial houses, reduction in rates of interest on retail loans has increased demand for durable products.
- ✓ Increase in foreign direct investment due to government initiative of allowing 51% FDI in multi – brand Retail and for cash and carry (whole sale trading and exports).
- ✓ Introduction of goods and services tax as a single unified system from 1st July 2017.
- ✓ Government is planning to prepare a single policy framework for retail , FMCG and e-commerce sector.

Organised retail penetration

- ✓ Strong growth potential for Organised Retail in India as Organised retail Penetration (ORP) in India is low (8%) in 2015 compared with that in other countries such as US (85%)
- ✓ The share of Organised retail Penetration is estimated to be 13% in 2019 and of unorganised retail Penetration would hold a major share of 87%.
- ✓ There are over 15 million mom and pop stores.
- ✓ The share of organised sector is 8% compared to 92% in unorganised retail sector in 2015.
- ✓ Compound Annual Growth Rate of organised retail in India is expected to be 24.57% between Financial Year 2015-20.
- ✓ Organised Retail is expected to rise to 24% of overall retail market by 2020

Significant scope for expansion in organised retail

Table No.:3

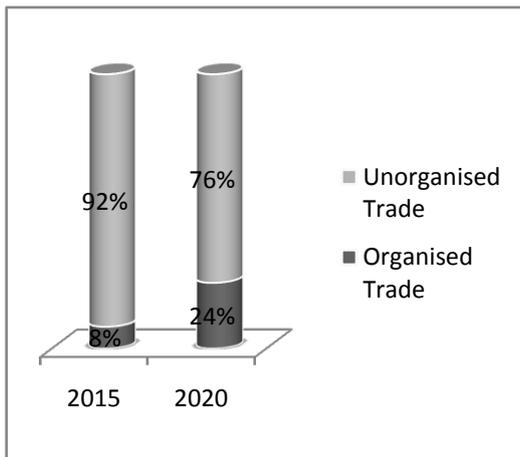
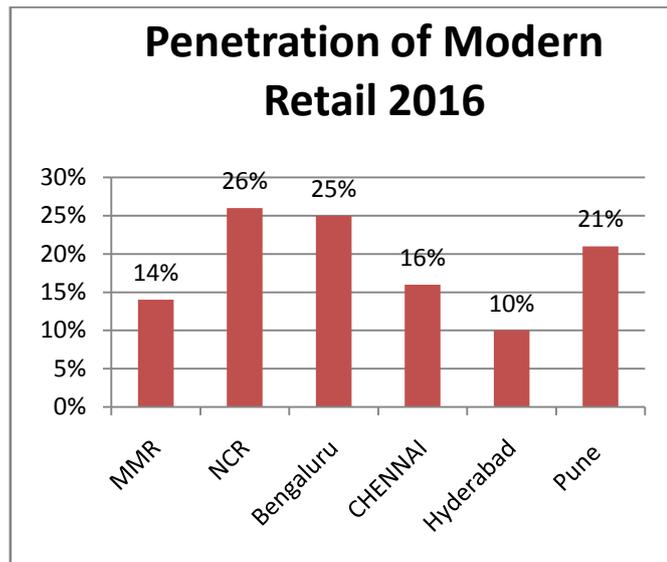


Table No. : 4



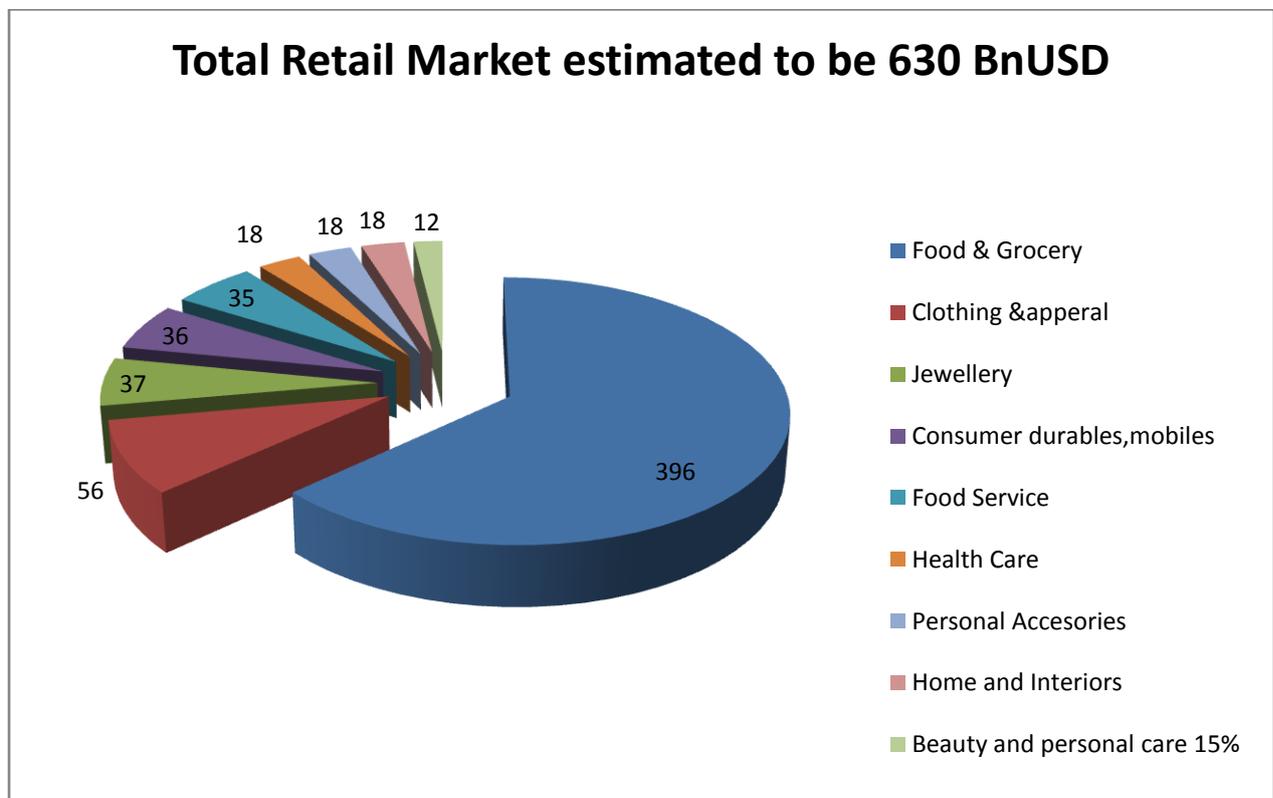
Source : BCG, KPMG-IndiaRetailing.com , Knight Frank Research -Total Retail 2017

Deloitte Report, Winning in India's Retail Sector ,

TechSci Research,

India's overall retail market estimated to be 630Bn USD, growing at 12-13%

Table No.:6



Source: Images India retail Report 2015, Euromonitor, BCG Analysis

Organised Retail market estimated to be 60 Bn usd

Share of Organised Retail Market in %

Table No.: 7

Food and Grocery	12
Clothing and Apparel	13
Jewellery	20
Consumer durables, Mobiles	13
Food Service	12
Health Care	18
Personal Accessories	15
Home and Interiors	12
Beauty and Personal Care	15

It is estimated by BCG that the organised retail market to be 60 bn USD and e-commerce is estimated to be 8-12 bn USD in 2015. Compound annual growth rate of overall Retail Industry, from 2000-2015 has grown to 12-13%, with organised retailing growing at 22%.

EVOLUTION OF MODERN RETAIL

First wave (1990s):

Advent of Shopping Centres

A sweeping look at the growth of India's modern retail sector leads us to observe a number of structural changes in the sector in the last two decades. It all began with a handful of shopping centres, lined with specialty retailers, mushrooming in the retail markets of the country's top cities during the mid-1990s, especially in the metros and mini-metros, thus heralding the beginning of the modern retail movement in India.

Modern retail typically entails all stores in malls as well as stores in shopping streets that provide a purchase invoice, have air conditioning or have recognised foreign/national brands. However, the impact of the global financial crisis on the Indian economy in 2008 and 2009 checked this pace, and eventually led to only a select number of successful malls to operate in the metros, giving rise to scepticism over the brick-and-mortar model of retailing.

Second wave:

Emergence of E-Tailing and Ground Work for Omni-Channel Retailing

The next big wave that changed the skyline of the retail sector in India and accelerated the presence of modern retail is e-tailing, or the sale of products and services through the Internet, telephone and television. This trend started in 2010 and has become prominent in the last four years. Information technology (IT) infrastructure has improved significantly over the last decade. Payments through online banking, credit and debit cards, as well as cash on delivery were the initial methods used for transactions. With the recent demonetisation drive, third-party wallet, a mechanism wherein money is stored in a prepaid wallet, has emerged as a preferred seamless instrument of payment. Customer experience has also become enhanced due to customer-friendly policies regarding the exchange of goods, quick delivery and others.

While brick-and-mortar stores offer a ‘no questions asked exchange policy’, some e-tailers went a step ahead, offering a ‘no questions asked money back policy’ in a bid to instill trust in online purchasing.

Third wave:

Emerging Omni-Channel Retail

The integration of experiencing the convenience of e-tail and brick-and-mortar is the third and the latest wave – known as omni-channel retailing. Today, a number of leading e-tailers have opened physical stores to showcase their products and service online customers. These stores will act as experience centres and will offer value-added services, such as trials, instant returns and product demos. On the other hand, a number of traditional brick-and-mortar players have gone online, either with their own websites or by tying up with already existing e-tailers, such as Amazon, Snapdeal, Jabong or Myntra. The figure is set to increase further in the coming years, as more retailers understand the importance of offering multiple touch points to consumers

In the Online segment, the greatest increase has been seen in purchases made by consumers using smart phones or mobiles. As illustrated in the graph below, the frequency of daily, weekly and monthly purchases has increased significantly in 2015 from 2013.

Frequency of purchases made using smart or mobile phones in India in 2015

Table No.:8

	2013	2015
Shopping Daily	6%	9%
Shopping Weekly	12%	24%
Shopping Monthly	20%	27%
Shopping Less Frequent	62%	40%

Source: PwC Total Retail 2015 survey

Hence, an omni-channel strategy that is connected with consumers through various channels, such as physical stores, websites, mobile apps, social media, kiosks and many more, is striving to enable the consumer to shift between various media seamlessly during a consumer shopping journey. We believe that omni-channel retail is going to drive the growth of modern retail in India going forward.

CURRENT ISSUES

Traditional Retailers Register a Growth Slowdown Due To Demonetisation

The demonetisation declared in India during 2016 led to trouble for a large number of traditional grocery retailers, resulting in the channel losing ground. As the majority of traditional retailers in the country do not accept payment with cards or any other form of electronic payment, the sudden cash crunch in the Indian economy during the year led traditional retailers in both grocery and non-grocery channels to lose a large consumer base to modern retail channels.

App-Based Shopping For Grocery And Non-Grocery Items Becomes Common In Urban India

Mobile based online shopping for both grocery and non-grocery items became popular in 2016. This was observed as this channel provides consumers with the perfect blend of convenience, enabling them to shop whenever and wherever, although these mobile applications also offered deep discounts, sometimes stronger than what is on offer through other online channels and in physical stores as well.

Despite the Growth in Internet Retailing, Store Based Retailing Continues to Dominate

Seven out of the top 10 retailers in the country in 2016 remained store based retailers. although all of them had some form of online operations and despite some of them having a mobile presence as well, store based retailing continues to dominate retailing in India, and these retailers have started to provide experiential shopping to consumers in order to continue attracting consumers and registering high footfall.

Demonetization Declared in 2016, will Drive Cashless Transactions in the Forecast Period

Demonetisation was declared in November 2016, which led to a large number of small retail players opting for electronic payment systems, whether card acceptance or Paytm acceptance, as there was a shortage of cash in the Indian economy. However, in January 2017 when the cash crunch relatively declined, retailers continued to use these electronic payment systems. This is set to continue during the forecast period as well, leading India towards becoming a less cash-centric economy.

GOODS AND SERVICES TAX (GST) AND RETAIL SECTOR

The Goods and Services Tax (GST) is the most significant transformation in the domain of indirect taxes, India is likely to witness in the near future. Under its regime, there will be relief from the complexities of various indirect taxes (Excise Tax, Sales Tax, Service Tax, etc.) because there will be a single levy on all transactions, barring a few. This tax structure will coalesce India into a single market where industries will be able to expand their businesses at the national level. The 'one tax' concept will dilute state barriers and state-specific tax structures and boost ease of doing business in the country. The retail sector will benefit significantly under the new regime. Movement of goods across India will become substantially easier. Logistics and distribution costs are also expected to go down, since players will be able to manage with fewer depots with effective supply chain management across the country.

Under the current regime, the average effective rate of tax (including Excise Duty, Sales Tax and Entry Tax) in the FMCG sector is nearly 24%–25%. Under the GST regime, the rate of tax will not be this high. According to the Revenue Neutral Report (RNR) issued by the Chief Economic Advisor to the Government, the standard GST rate is secured at 18%. If this rate is maintained, the prices of goods are likely to reduce, resulting in increased demand and a

boost given to the economy. The E-Commerce sector is also expected to benefit substantially under the new regime.

CONCLUSION

Retailing is the largest private sector industry in the world economy with the global industry size exceeding \$6.6 trillion and a latest survey has projected India as the top destination for retail investors. India is currently the twelfth largest consumer market in the world. A McKinsey report, “The rise of Indian Consumer Market”, estimates that the Indian consumer market is likely to grow four times by 2025. A good talent pool, unlimited opportunities, huge markets and availability of quality raw materials at cheaper costs is expected to make India overtake the world’s best retail economies by 2042, according to industry players.

Retail sector is the largest source of employment after agriculture, and has deep penetration into rural India. It is also believed that 21 million people are employed in the retail sector which is 7 per cent of the total national workforce whereas the global average is around 10-12 per cent. It is estimated that an additional eight million jobs will be generated through direct and indirect employment related to the retail sector.

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