

Indian Retail Reforms: Challenges and Social Impact

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ABSTRACT

The Indian Retail Industry has come forth as one of the most dynamic and fast paced industries with several players entering the market. Today, due to Indian Retail Reforms 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 the country. Contemporary retailing entered into the country is observed in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment, informative knowledge and food all under one roof. Today Retail Industry of India is the most promising emerging market for investments. It accounts for 14 to 15 percent GDP of the country. This study is an attempt to know about the various kinds of challenges being offered due to the enforcement of new FDI policies by the Government of India. The present research paper is a comprehensive study to know whether the reform in Indian Retail Industry have managed to set emerging opportunities in the service sector and thereby having a positive impact towards the overall growth of the country. The present research paper has also suggested an appropriate strategy after applying SWOT Analysis that suits best in the present circumstances.

Keywords: Organized and unorganized retail stores, Retail, GDP, FDI, FMCG Groups, Service Sector, Challenges, Social impact, Supply chain management, Indian economy, SWOT analysis.

1. INTRODUCTION

The origins for retail business have its footmark right from the emergence of unorganized retail stores as Kirana stores and mom-and-pop stores. Most Indian shopping were happening in open markets or numerous small grocery and retail shops. Shoppers have to typically wait outside the shop, ask for what they want, and even cannot pick or examine a product from the shelf. Access to the shelf or product storage area was limited. Once the shopper requests the food staple or household product they look for the shopkeeper to go the container or shelf or to the back of the store, to bring it out and offer it for sale to the shopper. The unorganized retail shops source their products from a chain of middlemen who mark up the product as it moves from farmer or producer to the consumer typically offering no after-sales support or service and most transactions were done with cash. These unorganized retailing was mostly a family affair. Steadily the government of India started supporting the rural retail and many indigenous franchise stores came up with the help of Khadi & Village Industries Commission. Then only, in the right sense the economy began to open up in the 1980's resulting in the change from unorganized to organized retailing. At that time the first few companies to come up with retail chains were in textile sector, for example, Bombay Dyeing, S. Kumar's, Raymonds, etc. Later Titan launched retail showrooms in the organized retail sector. Until the 1990s, regulations prevented innovation and entrepreneurship in Indian retailing. Some retails faced complying with over thirty regulations such as 'signboard licenses' and 'anti-hoarding measures' before they could open doors. There were taxes for moving goods to states, from states, and even within states in some cases. Farmers and producers had to go through middlemen monopolies. Till that time the logistics and infrastructure was very poor. Through the 1990s, India introduced widespread free market reforms, including Retail Industry. This time it was not the manufacturers who have to look for an alternative sales channel but have to act as a pure retailer. Again, with the changed scenario new entrants started entering into the sector. These entrants were in various fields, like Food World

Subhiksha and Nilgiris in food and FMCG, Planet M and Music World in music, Crossword and Fountainhead in books.

Figure1: An overview of unorganized and organized retailing



Unorganized retailing



organized retailing

Figure 1 clearly depicts the differential style of shopping between unorganized retailing where shoppers have to wait for the items to be finally handed to them whereas, on the other hand, in organized retailing the shoppers have free hand to select and finally carry the items along with them after final sale transaction is completed. Today India is the fifth largest in the world in terms of Retail Industry. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries, especially over the last few years. Table 1 given below highlight the emerging trends in retailing from the year 1986 to 2013. This surely indicates that despite of high complexities in terms of a wide geographic spread and distinct consumer preferences in Indian market it has only been possible with the positive efforts of the Government of India.

Table 1: Emerging Trends in Retailing

| Year | Trend | Characteristics |
|-------|-------------------|--|
| 1986 | The foot soldiers | FMCG companies had started to build robust chains. With 1,275 depots, Brooke Bond's large field force was part of a unique cash based direct selling system. Coupled with the Hindustan Lever network, it had India's largest retail distribution chain. |
| 1990s | Sachet Revolution | Selling in rural India was near impossible. Affordability, size, packaging, distribution - everything had to be different. The answer came along in the mid 1990s in the form of sachets - 20 ml plastic pouches. With this, FMCG companies rapidly ramped up their rural plans. |
| 1999 | The Big Push | The big players in Indian industry wanted a slice of the retail pie - the Tata's, Piramal Enterprises, ITC and S Kumar's. Piramal Enterprises chairman Ajay Piramal who setup Crossroads, a 150,000 sq. ft mall in south Mumbai has since exited the business. |
| 2000 | The Mall Bug | Suburbs in Delhi and Mumbai saw multiple malls of average size 250,000 sq. ft spring up. Tier - 2 cities followed suit and retail - only real estate companies came up. About 600 malls were to come up by the end of the decade, from 20 in 2004. The retail formats, too, underwent big changes. |

| | | |
|-------------|---------------------------|--|
| 2001 | Second-Movers | Competition began in full earnest. While it took Shoppers Stop over eight years to become one of the largest department store chains in India, Westside grew to about half its size within just two years of starting off. While almost 75 per cent of Shoppers Stop sales came from brands supplied by other producers, 95 per cent of West side's sales came from its own in-store brands. |
| 2004 | Size Matters | For all the hype, through the 1990s, organized retail in India added just 1 million sq. ft of space a year. In 2003 alone, 10 million sq. ft was picked up by retailers. The growth continued. In 2004, at least 50 new malls of 100,000 sq. ft size and above were slated to open. |
| 2005 | More Of The Same | Urban organized retail was getting crowded. To be different, a few specialty malls cropped up. While some focused on luxury brands, others went for gold jewelry, furniture, and even weddings. But these were just a minuscule part of the big pie. |
| 2007 | Green Evolution | Reliance Industries (RIL), Aditya Birla Group, the Mittals of telecom fame, Pantaloon Retail and RPG Group as well as a host of smaller players jumped into retailing of fresh vegetables, fruits and groceries. And with good reason. Of the retail pie that was worth Rs 12 lakh crore in 2006, 63 per cent was food and groceries alone. |
| 2009 | Shutters Down | Chennai based value retailer Subhiksha Trading Services went neck deep in Rs 600 crore of debt (plus Rs 180 crore raised internally as shareholders' funds). It could not pay vendors, and employees. By 2009, it had no money to run its operations, senior staff was deserting, many stores were reportedly looted, and there was a demand for the government to initiate an independent audit of its accounts. |
| 2010 | Foreign Hand | Big retail was at the doorstep, waiting for the still elusive green signal to foreign investment. Two years after it entered India, in partnership with Bharti, WalMart was perfecting its back end system at its five stores in India (three in Punjab, and one each in Rajasthan and Madhya Pradesh). The rules allowed WalMart only to operate in the cash and carry segment. But in every other country, it sold directly to consumers. It had plans to invest Rs 500 crore more in the next five years to open 12 similar stores if the retail FDI rules did not change that is. And change they did. |
| 2011 | The Gates Open | The government has now given its nod to increased FDI in retail 51 per cent in multi brand, and 100 per cent in single brand retail. Easier said than done. Political consensus is missing. As we go to press, Parliament has been stalled on the issue for the seventh day. |
| 2013 | International Competition | Spencer's, Food world Supermarkets Ltd, Nilgiri's and ShopRite support retail reform and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for |

expansion capital and opportunity to gain expertise in supply chain management. Spencer's Retail with 200 stores in India, and with retail of fresh vegetables and fruits accounting for 55 per cent of its business claims retail reform to be a win-win situation. Food world, which operates over 60 stores, plans to ramp up its presence to more than 200 locations. It has already tied up with Hong Kong-based Dairy Farm International. With the relaxation in international investments in Indian retail, India's Food world expects its global relationship will only get stronger. Competition and investment in retail are on an urge to provide more benefits to consumers through lower prices, wider availability and significant improvement in supply chain logistics.

Source: Various Business world Issues till 2013

2. LITERATURE REVIEW

There have been a numerous research studies focusing on the FDI impact of retailing industry of India. It is relevant to refer briefly to the previous research studies in the related areas of the present study in order to avoid repetition and also to search out the different dimensions of the study. Among earlier studies in early 2000s, an important study on Retail modernization in developing countries and its effect on the broader food system has been a major focus of research under the most visible banner of supermarket revolution. Mukherjee et al. Arpita (2006) highlighted various debate and discussions on the risks and prudence of allowing innovation and competition within its retail industry. Shah and Venkatesh (2009) highlighted the opportunities for food industry in India. Organized retail offer the small Indian farmer more competing venues to sell their products, and increase income from less spoilage and waste. The study claim that currently, in India, the small farmer faces significant losses post-harvest at the farm and because of poor roads, inadequate storage technologies, inefficient supply chains and farmer's inability to bring the produce into retail markets dominated by small shopkeepers. This study claim India's post-harvest losses to exceed 25%, on average, every year for each farmer. Mehta and Chatterjee (2011) recommended that different reasons behind the legal restrictions imposed by the Government of India on organized retail must be removed, and the retail industry in India must be opened to competition. Bahree and Megha (2012) highlighted main issues on India unlocks door for Indian Retailers. They also focus on because of unorganized retail, in a nation where malnutrition remains a serious problem, food waste is rife. Well over 30% of food staples and perishable goods produced in India spoil because poor infrastructure and small retail outlets prevent hygienic storage and movement of the goods from the farmer to the consumer.

3. OBJECTIVES OF THE STUDY

The research study will be based on three main objectives:

- 3.1** To know about different challenges being faced by the Indian Retail industry.
- 3.2** To know about the social impact that the emerging trends in Indian Retail industry have on Indian society.
- 3.3** To know whether the reform in Indian Retail Industry have managed to set emerging opportunities in the service Sector.

4. PURPOSE OF THE STUDY

Today Indian Retail Industry is the fifth largest in the world. Especially over the last few years, in organized and unorganized sectors, Indian retail industry is one of the fastest growing industries. Though initially, the retail industry in India was mostly unorganized, but with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With growing market demand, the retail industry is expected to grow at a pace of 25-30% annually. The Indian retail industry is expected to grow

from Rs. 35,000 crore in 2004-05 to Rs. 109,000 crore shortly. Indian Retail Industry is the most promising emerging market for foreign investors. According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, the retail trade in India had a share of 8-10% in the GDP (Gross Domestic Product) of the country in the year 2007. In 2009, it rose to 12%. Thereafter increasing gradually till 2013 up to 15% and is expected to reach 22% in the next few years. Retail is India's largest industry with around 11% of the employment. Retail sector is one of India's fastest growing sectors with a 5% compounded annual growth rate. As India has a huge middle class base and its untapped retail industry are key attractions for global retail giants planning to enter newer markets. Due to the changing lifestyles, strong income growth in the middle class population, favorable demographic patterns and new policies of Indian Government, Indian retail is expected to grow 25% annually.

The present value of the Indian retail market is estimated to be around Rs.12,00,000 crore (\$270 billion). Retail market for food and grocery with a worth of Rs. 7,43,900 crore is the largest of the different types of retail industries present in India. Furthermore around 15 million retail outlets help India win the crown of having the highest retail outlet density in the world. Table 2 explains the organized retail penetration across various categories of retail sector viz. Footwear, Clothing, Books & Music, Jewelry & Accessories, Durables, Home furnishing, Medical stores, Food & Grocery and Health & Beauty.

Table 2: Statistics of individual penetration of different organized categories in retail industry

| Categories | Penetration |
|----------------------------------|-------------|
| Footwear | 22 |
| Clothing | 12 |
| Books & Music | 9 |
| Jewelry & Accessories | 8 |
| Durables | 5 |
| Home furnishing | 3 |
| Medical stores | 2 |
| Food & Grocery | 1 |
| Health & Beauty | 1 |

Source: Business Standard Oct 2013.

Figure 2: Percentage distribution of organized retail penetration across different categories

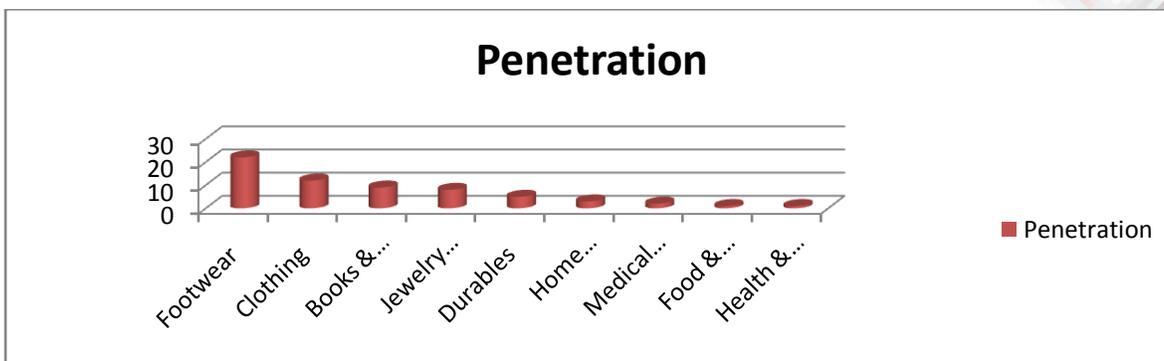


Table 4: An overview of FDI opened for Indian Retail Industry

| YEAR | FDI INFLOW |
|------|---|
| 1995 | World Trade Organization's General Agreement on Trade in Services, including both wholesale and retailing services, came into effect. |
| 1997 | FDI in cash and carry wholesale with 100% rights allowed under the government approval route. |
| 2006 | FDI in cash and carry wholesale under the automatic route up to 51 percent investment in a single brand retail outlet permitted. |
| 2011 | 100% FDI in single brand retail permitted. |
| 2013 | Foreign retailers entering not permitted to franchise their stores in multi brand segment and will have to put 50 percent of their investments in back-end infrastructure specifically for the chain they are setting up. |

Table 5: FDI Policy in Indian Retail Industry
(June 2013)

| VARIOUS SEGMENTS | ENTRY ROUTE | FDI CONTRIBUTION |
|--------------------------|------------------------------------|------------------|
| Cash and carry wholesale | Automatic | 100% |
| Single brand retail | Foreign investment promotion Board | 51% |
| Multi brand retail | Not permitted | - |

Table 5 elaborates the current condition of FDI policy in the retail industry of India. Though it has successfully through with cash and carry wholesale and also in the single brand retailing but it is still under consideration by the Government of India to allow FDI in multi brand retailing. DIPP is seeking clarity from cabinet as the discussion is still under the process on FII in multi brand retail over allowing FIIs in the sector and a cap on the minimum investment in back-end infrastructure. After almost a year of deliberation, the white paper published by the DIPP/ Ministry of Commerce and Industry, a retail FDI draft document has been submitted to the Union Cabinet for approval.

Challenges towards Indian Retail Industry after new FDI policy

The unremitting effort put in by the government beneath the Liberalized policy has have produced many challenges in front of the retail industry of India. Figure 4 shows the cluster of challenges faced by the companies working internally and those that have entered into the retail industry of India after retail reforms.

The Strengths-Weaknesses-Opportunities-Threats (SWOT) analyses of the Indian Retail Industry are done as follows:

Strengths:

Modern retail structure facilitating urbanization.
Reduced links especially direct manufacturer-retailer-customer chain facilitating lower costs.
Technology upgraded facilitating fewer errors.
Major contributor to GDP.
Presence of big industry houses like Tatas, Bharati and Rahejas capable of absorbing losses.
High growth rate.
High potential for growth in future.
Consumer service facilitating accessibility and affordability of products.
Cluster of diverse products in one roof facilitating time saving and more updated with current changes.
Bonafide products with Guarantee facilitating customer satisfaction and brand loyalty.
Pleasant shopping environment facilitating enjoyment, entertainment and relaxation.
Research driven contributing innovative ideas into the reach of hands.
High employment generator
Competent manpower facilitating better service opportunities and comfort for customers
Improved tastes and preferences facilitating better understanding of different cultures and adaptability
Changed consumption pattern facilitating changed dimensions from money saver to money spender
Better lifestyle facilitating consciousness for health and fitness.

Weaknesses:

Lowest per capita space in the world with 2 sq.ft/1000 results in overcrowding.
Comparative more prices than specialized shops of India
Non-availability of huge land spaces at prime slots especially in the metros
High overhead and labor costs
Highly unorganized retailing industry
Low retail productivity as compared to international peers
Scarcity of expert management and trained staff
Inadequate reach of advanced education systems in interiors of the society
Improved infrastructure with equipped modern facilities
Sophisticated and advanced technologies
Inefficient supply chain management and minor investment in logistics
Almost no opportunities for employment in reality
Ban on FDI in certain areas.

Opportunities:

Change lifestyle and status consciousness
Ready availability of real estate in smaller towns
Improved sourcing options
More organization in retail sector in future
Healthy competition as new players are entering and will have check on the prices
Increase income of family in terms of contribution of Indian woman
Emergence of new generation as young shoppers
Quality, variety and easy availability under one roof as center of attention
Increase in disposable income

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