

# *Organized Retailing in India: A Buzz of Flourishing Business*



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## INTRODUCTION

Retailing is the latest buzzword among the business. This newest fad is getting high visibility media coverage. Dynamic young people as well as blue-chip companies are suddenly taking pride in calling themselves shopkeepers. This profession is able to attract the cream of talent from management institutes. The amazing irony about the retail industry is that it exists, in fact, flourishes, in spite of an industrial slump. As far as the western world is concerned the retailing market operates virtually at saturation point.

Retailing in India is evolving rapidly, with consumer spending growing by unprecedented rates and with increasing no of global players investing in this sector. Organised retail in India is undergoing a metamorphosis and is expected to scale up to meet global standards over the next five years. India's retail market has experienced enormous growth over the past decade. The most significant period of growth for the sector was between year 2000 & 2006, when the sector revenues increased by about 93.5% translating to an average annual growth of 13.3%.The sectors growth was partly a reflection of the impressive Indian economic growth and over all rise in income level of consumers.

Apparels and consumer durables are the fastest growing vertical in the retail sector. Mobile phone as a product category has witnessed the highest growth in the consumer demand amongst all retail products offering, with increasing penetration of telecommunication in towns and villages. The telecommunication sector has been adding on an average 5 million new users every month. The other product categories are gaining traction predominantly in the urban areas and emerging cities, with increasing average income and spending power of young urban India.

Against the backdrop of an ageing world, India processes the advantages of having a largely young population. 35% of India's population is under 14 years of age and more than 60% of the population is estimated to constitute the working age group (15-60) till 2050. Two-third of Indian population is under 35, with the median age of 23 years, as opposed to the world median age of 33. India is home to 20% of the global population under 25 years of age. This trend is projected to continue for the next decades. The large proportion of the working age population translates to a lucrative consumer base vis-à-vis other economic of the world, placing India on the radar as one of the most promising retail destination of the world.

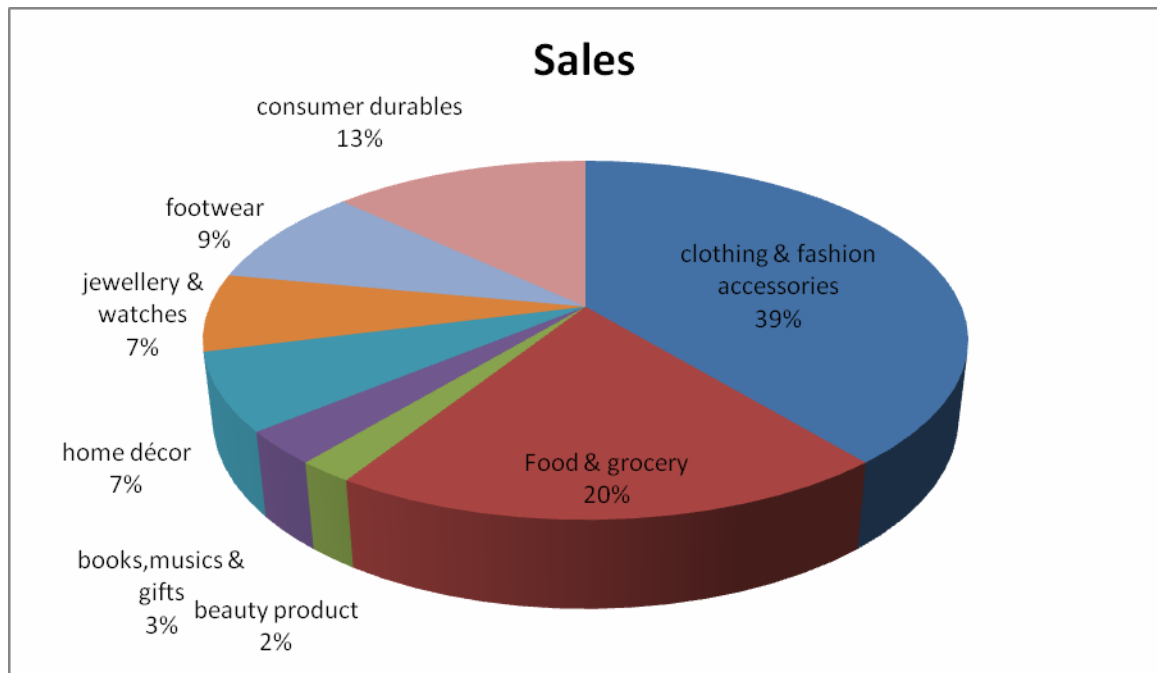
Similarly the Indian retail home furnishing market is growing day by day. Many new brands are being launched every year. The Indian customer is also becoming more aware about the new designer market and is always looking ahead for something new or different. Manufacturers, designers, project, client, users and vendors work together as stake holders for new product

development. For any successful collection the credit goes to these stake holders and so does the failure. A collection contains various products and a product is that which opens up an entirely new market, adapts or replace an existing product that significantly broadens the market for an existing product, an old product introduced in a new market, an old product with a new packaging, an old product marketed in a new way.

## ORGANIZED RETAILING IN INDIA

Organized retailing in India has been growing at a rapid pace since the last several years and this growth influence over economy in different ways. More importantly it has witnessed rapid change in terms of the retail mix (organized versus unorganized), the quality and scale of retailing, the varieties of retail formats, also change in consumer preferences and shopping habits. The retail sector is one of the fastest growing industries in India, catering the world second largest customer market.

Although there are many important issues pertaining to Indian's economic development, the subject of organized retailing has attracted considerable attention and controversy in reason time. The organized retailing in India is still at its infancy stage where as it has reached a some what matured stage in the countries like Indonesia, Malaysia, Thailand, etc., India's retailing boom has acquired considerable trust, enthusiasm and vitality with the increased interest of foreign direct investment in India to explore the opportunities in Indian retail sectors and the existing giants taking bold innovative steps too persuade the consumers. This will make the Indian organized retail sector enter into the important phase of reformations like the major players adjusting their formats to suit local tastes and buying behavior. The local retails also are also planning new innovative retailing strategies by using their knowledge of local markets to be more competitive.



**Fig: Organized retail market segment in India**

**CHALLENGES FACING THE ORGANIZED RETAIL INDUSTRY:**

Despite the rosy hopes, some facts have to be considered to positively initiate the retail momentum and ensure its sustained growth. The major constraint of the organized retail market in India is the competition from the un-organized sector. Traditional retailing has been deep rooted in India for the past few centuries and enjoys the benefits of low cost structure, mostly owner-operated, therein resulting in less labor costs and little or no taxes to pay. Consumer familiarity with the traditional formats for generations is the greatest advantage to the un-organized sector. On the contrary, organized sector have big expenses like higher labor costs, social security to employees, bigger premises and taxes to meet.

In retailing, it is extremely important to keep a track of consumer demands, desires & all the factors that influence their buying behavior. Success in retailing comes from how the value chain is linked to each retail function aiming at the watchword while attempting to orchestrate the value driving forces to accomplish success in retailing. Innovations & constant value additions to the key enables in entire value chain will give a clear competitive advantage & help the retail store emerge as a winner.

Availability and cost of retail space is one major area where Government intervention is necessary. Liberalizing policy guidelines for FDI needs focus as well. Proper training facilities for meeting the increasing requirements of workers in the sector would need the attention of both Government and the industry. Competition for experienced personnel would lead to belligerence between retailers and higher rates of attrition, especially during the phase of accelerated growth of the retail industry. The process of avoiding middlemen and providing increased income to farmers through direct procurement by retail chains need the attention of policy makers. Taking care of supply chain management, mass procurement arrangements and inventory management are areas that need the focus of entrepreneurs.

Without a doubt, the most important factor which makes a retailer successful is the appeal & quality of the range of products that it stocks. Certainly there are other factors that contribute to the success; the design of the store, the attentiveness & knowledge ability of the staff, the inventiveness of the marketing, promotions & appeal of the visual merchandising. These are the things which although enhance the shopping experience for the customers & perhaps ensure that they visit your store more than others, they do not directly lead to a sale. The only thing that will make a customer part with his cash is, in the end, the product.

The process which supports the planning & buying of a range is therefore central to any retailers operations. This process involves not just the choice of the product itself, but also the identification of the criteria that will influence & constrain this choice & the factors to consider ensuring that we do get it right.

## **ADDING VALUE IN-STORE**

The moment one thinks of value in retailing, what comes to mind are some dominant success indicators like the location of the store, the look of store & customer traffic that throngs the store!

## **LOCATION**

Successful retailing depends on the three most important factors: Location, location & location. And hence perhaps many retail organizations think that having got the right location, they would start churning out sales. It is right that location is important but if one does not look at the robustness of the other value drivers too besides location factors or any dominant factors that the organizations may think is right for achieving the desired results, sales would not happen.

We see large crowds of people visiting retail stores & shopping malls. We even know that an up-market shopping mall had huge crowds visiting them & for reasons of effective crowd management, they introduced especially on weekends certain entry enablers for customers like the mobile phones, credit cards, identity cards, an entry fee, etc! So, these are all factors that evince the successful establishment of a store or mall.

On the other hand, there are other retailers, primarily in the life style retail sector, whose merchandise is targeted towards psyche of rich mega cities. Driving on this perception of a higher willingness to spend on life style & luxury products, this segment is expected to maintain focus on the large base of the richest consuming class in the larger cities.

## **THE CUSTOMER**

The potential consumer is anyone who walks into your store but you can influence who walks into your store through advertising, through store environment & through product that you sell & the price you sell it at. Most customers are fickle; even if they walk into your store with a particular purchase in mind, they will often walk out with something else. So you need to develop proper system to collect the customer feedback. Even customer feedback can be misleading. If one very loud customer asks regularly for a product it doesn't mean that every customer wants or needs it. That one customer will be remembered & can lead to false demand.

## **SPACE**

Walls are not elastic. You will need to decide how to allocate the space you have available to the products the customer expects you to stock, in a way that delivers the best returns. This macro level planning of the product mix is critical to achieving profitability.

Hanging/ stacked/counters- all have different capacities & different advantages & disadvantages. You will need to decide what stock density you want to achieve.

The more options/units you can hold for a given amount of space, the higher the potential returns. However, the customer may not approve. He/she may wish to shop in a store that is less cluttered. The range size for any product area is not constant. It is no use giving space to a product if there are not enough options to display.

## **PROFITABILITY**

Buy low, sell high. Buy on credit, sell on cash. Retail profitability of seems like a no-brainer. Margin on sales, i.e. the difference between the sales at actual selling price & the cost of product sold, is the number one deliverable for buying & merchandising team. This will impact on the cost price you need to negotiate, the price that you will sell at & the mark-down you can afford. We should remember that, stock is money-every product you have on your floor is not a sale until the customer buys it, but is a cost as soon as you pay for it.

## **PRICE**

Define your price architecture with respect to your lead in, Mid & Premium price points. Be customer-led, not cost-driven. Set the price according to what the customer wants to pay, & so that you can maintain clear price message & be flexible with your margin rate. Don't set the selling price according to the cost price for the product with a fixed margin rate. Customers' don't understand why two similar products from the same brand are different prices, nor why they have to pay more for a bigger size or different colors of the same item. At the time, clear pricing delivers a stronger message.

## **INDIAN RETAIL INDUSTRY**

With the boom in the Indian retail industry various Indian companies has emerged as successful players. For instance, the RPG Group which was the first to get into the organized retailing business in India, later the introduced Food world a division of Spencer & Co, a part of the RPG Group, in May 1996. RPG launched another chain called Music World; in between they have also formed other companies and opened new stores. As Indian retail industry started flourishing Pantaloon Retail became one of the largest companies in this business with their retail presence across various segments including food, fashion and footwear, home solutions and consumer electronics, books and music, health beauty and wellness, general merchandise, telecom and IT, leisure and entertainment and financial products and services. The company is a part of Future Group, a diversified conglomerate with presence in multiple consumer-centric businesses.

The Tata Group, with interest in various consumer product categories has different companies to retail its brands. While in automobiles it operates through its distributor and dealer network, for lifestyle & F&G segment, it operates through its retail arm Trent. Titan Industries Limited, a joint venture between the Tata Group and the Tamil Nadu Industrial Development Corporation (TIDCO) is also a famous name in watch business and branded Jewellery business with its brand Tanishq. Primal Group, Vishal retail, Reliance retail are among the famous business houses



which have ventured in to retail business. Among the wholesalers the German group Metro cash and carry is a famous name that started operations in India in 2003 and introduced the concept of Cash & Carry to India.

While retailing industry is present for centuries, it is only in the recent times that it has witnessed so much dynamism and corporate attention. It is the latest bandwagon that has witnessed hordes of big players like TATA, Birla, Reliance, Pantaloon Group, etc., leaping into it. The entry of big players in retailing has caused a major revolution in its marketing strategies and innovations. Now retail sector, being considered as the most dynamic and attractive sector in India, is going through a transition phase. For a long time, the corner grocery store was the only choice available to the consumer. This is slowly giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of hypermarkets / supermarkets / grocery chains (food world, Subhiksha, Apna Bazaar, Big Bazaar, etc.) And fast food chains (McDonalds, Dominos, etc.)

### **ATTRIBUTES DRIVING INDIAN RETAIL INDUSTRY**

The certain points which can be taken under consideration:

- Economic prosperity
- Rising incomes
- increased per capita spending
- rapid urbanization
- Improved infrastructure
- liberalization of the Indian economy
- Flourishing manufacturing and services sectors
- Booming real estate industry
- Increasing foreign direct investment

### **IMPEDIMENTS TO INDIAN RETAIL INDUSTRY**

- Although Government of India at their level has taken various initiatives to bring spurt in the Industry like 51 per cent FDI is allowed in single-brand retail outlets and 100 per cent in cash-and-carry through the automatic route. 100 per cent FDI allowed in realty projects through the automatic route etc, however, the last few months have been a bad story for Indian Retailing Industry. The reason, as the whole world is aware of the global financial crisis. Some of the major projects have been stopped or amid completion are still pending. The crises can be a short story and will vanish soon as the major economies have already started showing positive results.
- However, India is still lacking in providing skilled manpower to the industry. This has always been a major issue, various government departments have taken major steps to encourage the young rural population to take part in various schemes run by government of India and maximize their level of knowledge and skills. About the young educated group of people, many private run institutions are there. Various business conglomerates are tying up with these educational institutions to teach the retailing

concept, new technologies involved, logistics management, Information Technology applications involved in retail business.

## CONCLUSION

Organized retail provides an attractive opportunity to manufacturers to expose their products to a large volume of customers in an environment conducive to buying. Thus retailers feel that the focus of manufacturers should be on producing good products, & forging relationships with organized retail. Retailing is a volume driven, low margin business.

The qualifying factors are the desire to create new brands, and deep pockets to sustain investment in branding and market-building.

However, the success factors to win in the contest are higher drive and enthusiasm to take the hits that will invariably come, an ability to tap the consumer's sense of adventure and differentiation, the talent to develop a product-service offer that is distinctive, and a pool of common sense to minimize the losses during the initial period of investment, which may be months or years.

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