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# Growth Drivers and Challenges for Organised Retailing in India

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***Abstract*—With a contribution of 14% to the national GDP and employing 7% of the country's total workforce, the retail industry is definitely one of the pillars of the Indian economy. Interestingly, only 4-5% of this monolith business segment is in the organized sector. The parties involved in this growth story are the consuming public, the manufacturers and retailers and finally the government. Principal growth drivers are a rising economy, demographic changes, consumerism, growth of nuclear families and satellite townships, changes in consumer behaviour and impact of working women, availability of real estate, FDI regulations, technological advances, electronic media and the rise in the use of plastic money. Despite all the frenzy associated with the business, retailing has not been accorded an industry status. Other challenges relate to inadequate and uninterrupted power supply, cold storage facilities, logistics and supply chain mechanism and unfriendly labour and tax laws**

***Keywords: Retail, India, Organised retail, Growth drivers, Challenges***

## I. Introduction

With a contribution of 14% to the national GDP (Gross Domestic Product) and employing 7% of the total workforce or two million employees, the retail industry is definitely one of the pillars of the Indian economy. Post-liberalization the retail sector in India is heralded as one of the sunrise industries. With more than US$450 billion sales and an average growth rate of 11.2% for the market and 35% average annual growth rate for organised retail business, figures are indeed encouraging[1] .Though organised retail has been growing at an impressive 35% to 40% year-on-year in the last few years compared to 9-10% growth in the overall retail industry, it accounts for just around 5% of the total retail market. While India has one of the highest densities of shops per population with 15 million small retail outlets [2](14 shops per 1000 people) the organized retail is still at an embryonic stage in the growth process. It is probably for this reason India has been ranked as the third most attractive nation for retail investment among emerging markets[3].

## II. Retail Growth Drivers

There are three segments contributing to the growth of retailing and in turn boosting the economy and the country's GDP. The parties involved are the consuming public, the manufacturers and retailers and finally, the government. Following are the contributions by one or more parties to this growth saga.

## III. Economic Growth[4]

India is one of the largest economies of the world. The GDP has gone up from $600 billion in 2003 to $ 1.25 trillion in 2008. Current estimates are that the GDP of the country has grown @ 6.6 % (2009-10) and is projected to grow @9% in (2010-11)[5].The growth of retailing is intrinsically linked to the Growth Rate of a country. In the Indian context major growth in retailing has developed during the last one decade when the GDP growth picked up and grew as follows:

| 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|---|---|---|
| 3.8% | 8.5% | 7.5% | 8.1% | 9.2% | 9.0% | 6.7% |

Source: Ministry of Food Processing, Government of India

In terms of PPP[6](purchasing power parity) the country is placed 4th behind United States, China and Japan. Germany comes behind India.

## IV. Demographic Changes

In 1985, 93% of India's population had disposable income less than Rs.0.09 million. By 2005 the figure was 54% (ie.431 million people are above the line). By 2025 it will be 22 % [7].Again the average disposable income will grow from Rs.0.114 million in 2006 to Rs.0.319 million by 2015. It is estimated that India will emerge as one of the world's youngest nations as 54 per cent of its current population is aged 24 years and less **(see table below)**. By 2020, the country is expected to represent 17 per cent of the world's working age population[8].With the availability of easy credit cards and a rise in the aspirational class, the major beneficiary would be the retail industry – more specifically the apparel segment of the business[9].

Proportion of Young Population

| Country | India | China | Indonesia | US | Brazil | Japan | Germany |
|---|---|---|---|---|---|---|---|
| Age below 25 years | 53% | 42% | 30% | 30% | 29% | 27% | 26% |

Source: HSBC and Business Today (March2010)

## V. Consumerism

India's middle and high-income population has notched up an impressive growth and the country's middle class will grow from about 5% of the population to more than 40% and create the world's fifth largest consumer market[10]. As a country with a high percentage of youth (33% below the age of 15)[11], consumer spending has risen sharply. Increased awareness has resulted in a perceptible change in behavior and they are on the lookout for convenience, speed, efficiency and a wide range of products, simultaneously – a one-stop shopping experience. Compared to the eighties, India has seen brand explosion in almost all categories of goods providing ample choice to the customer. Their economic well being, increasing aspirations for higher standards of living and comforts are responsible for the increase in consumerism.

## VI. Growth of nuclear families and Satellite townships

With most major cities getting overcrowded new businesses and industries are being located on the outskirts of major cities resulting in people migrating to these areas for their livelihood. These proliferating satellite townships provide a big opportunity for retailers who open outlets in order to target this captive consumer base. With a shift in family structure, nuclear families have become a significant component of urban markets. Large families' fragmenting into nuclear families translates into increased footfalls and more shopping baskets – providing a great opportunity for the retailers.

## VII. Change in Consumer Behavior and the Impact of Working Women

Changing income levels and occupation have resulted in a change in the consumer's buying behavior. More urban women are seeking employment resulting in dual income families. This results in more disposable income that in turn spawns consumerism. Moreover, in households with working women there is greater work pressure and increased commuting time resulting in adjustments being made to the food habits (cooking vs. ready to eat) as well as clothing. The focus shifts to convenien*c*e and comfort. The size and composition of the shopping basket has changed over time. Today's consumers are looking for shopping convenience and want to have all their requirements under one roof, coupled with speed in the retail store operations. Due to time constraints, families are now looking for 'shoppertainment' – combining shopping with entertainment. This is one of the causes of increased footfalls at malls with multiplexes.

## VIII. Availability of Real Estate

Over 95% of the Indian retail stores are less than 500 sq.feet in size.[12]Through the 1990s organized retail in India added just 1 million sq.feet. of space a year. From 2001 the pace has gathered great momentum as can be seen from the 10 million sq.feet added in 2003 alone. [13]In 1999, India had just 3 shopping malls measuring around 1 mn.sq.feet. By the end of 2006, the total mall space rose to 28 mn.sq.feet. with an average annual addition of 3.9 mn.sq.feet. Post 2006,, on an average 8 mn.sq.feet. retail space has been added annually, pan India, taking the mall space to over 52 mn.sq.feet by the end of 2009.[14]

## IX. Technological Advances

From bar code scanners to RFID, technology has been one of the most important drivers of change in the retail industry. To leverage on the growth of internet usage, on-line retailing is growing as an alternate channel. Mobile marketing is another available tool. While Planogram software enables retailers in planning the store layout, managing shelves and designing interiors, CRM software applications aid retailers in developing a database of customers under different classifications. Global Positioning Systems have been adopted to monitor the movement of merchandise.

## X. Electronic Media

As against two channels in the early 90's there is an explosion in the number of TV channels through which retailers have access to a larger audience. Due to creative advertisements across channels and print media, kid's related products have registered stupendous growth. In fact media invasion has changed the lifestyles of consumers resulting in greater demands on variety and assortment, value, service and convenience. Media has helped in two ways; on the one hand, it has resulted in booming sales for the retailers and on the other, by creating awareness, has ensured that the consumer gets *'value for money'*.

## XI. Rise in the use of Plastic money

Plastic money an acronym for credit cards is an important driver of retail businesses. Indian consumers are increasingly using credit cards for shopping as well as dining According to *Euro monitor,* India is the second fastest growing Financial Cards market in the Asia-Pacific region. In 2008, credit cards sales are estimated to have contributed around 1.2%, which is expected to be around 1.4% of the total retail sales in India at the end of 2010.

## XII. Challenges Ahead

Despite all the frenzy associated with the business, retailing has still not been accorded an industry status. According industry status will enable retailers' access to cheaper bank credit facilities. Another contentious issue relates to FDI in retail. Considering the sensitivity of the issue, there is bound to be a lot of resistance to change. Apart from these initiatives the following issues need to be addressed on an urgent basis:

## XIII. Cold Storage Facilities

Food products constitute the single largest component of private consumption accounting for close to 35% of total spending[15].Cold storage facilities form an integral part of the supply chain and are essential for storage and distribution of perishable goods and temperature sensitive items. The present cold storage capacity in India is grossly inadequate. There is an urgent need to scale up and develop integrated cold chain facilities across the country. The country is short by 10 million tonnes of cold storage capacity due to which about 30- 40% of agricultural produce goes waste every year. A**s** against a requirement of over 31 million tonnes of cold storage, India has a capacity of nearly 21.7 million tonnes, leading **to** a loss of about 40% of the agri-produce post harvest. At present, the Indian cold chain market is worth $2.6 billion and this market is expected to grow to $12.4 billion by 2015[16] .Every year we read reports of tomatoes and other perishable food items being dumped on the roads by the farmers for want of buyers at prices that meet production costs[17].While India is the sixth largest producer of fish, about 20 – 30% is damaged for want of cold storage facility. If the above statistics do not ring the necessary alarm bells, both for the retail businesses as well as the government, then what else will?

## XIV. Continuous and Adequate Power Supply

A study done by Enterprise Surveys has revealed that inadequate power supply is the most important obstacle to the development and growth of retail in India [18].

**Power Outages**

| | Stores facing outages (%) | Outage incidents per month | Hours of outage per month | Losses from outages (% from sales) |
|---|---|---|---|---|
| **All stores** | 82.9 | 26.9 | 65.1 | 4.6 |
| Leading states | 77.4 | 23 | 47.6 | 4 |
| Lagging states | 90.6 | 42.8 | 126.3 | 7.1 |
| Ahmadabad (city with best | 22.5 | 1.2 | 1.5 | 0.4 |
| Gurgaon (city with worst power | 100 | 91.6 | 339 | 17.2 |

Source: Enterprise Surveys

## XV. Logistics and Supply Chain

Managing the supply chain is the core of the retailer's business since the products have to be moved from the point of manufacture to the point of consumption (Customer). The term currently used is the 'farm to fork' concept. While India's telecommunications network has improved dramatically, the nation's outdated road, rail and port infrastructure continues to present logistical challenges. It is believed an inadequate logistics infrastructure knocks 1 to 2 percent off India's average annual GDP growth rate. Only 2 % of India's roads are highways, yet those highways handle more than 40 % of freight traffic. Rail service is constrained, and two-thirds of the nation's commercial trucks are owned by carriers with fleets of five trucks or less. As a result, logistics costs are estimated at about 13 percent of GDP compared with well below 10 percent in most developed economies. [19]

## XVI. Unfriendly Labor and Tax Laws

The retail and wholesale sector is the second largest employer in India after agriculture accounting for over 9% of all jobs and its share in GDP equals 14%. [20]A study shows that in India 27% of the stores find labor regulations as a problem for their business[21].A World Bank study ranks India at 112 of 175 countries on the rigidity of employment regulation.[22]Currently, manpower cannot be employed on hourly basis as is done in advanced countries. For the retail sector to thrive, grow and expand state laws need to be amended and made less rigid. Similar is the case with the sales tax structure with different states following different structures and slabs. Though the central government introduced the concept of VAT (Value Added Tax) to do away with multi-point taxes, not all states have adopted the same. The end result is that the customer has to face the music by paying a higher price for the end product.

## XVII. Conclusion

There are a great many challenges that need to be addressed by the retailers as well as the government. Unlike FDI that requires policy changes, there are other major issues that need to be addressed on a war footing. Retailers have to invest heavily in technology to monitor stocks and their movement, both in-stores as well as enroute. This will enable them to adopt concepts such as QRDS (Quick Response Delivery System) and ECR (Efficient Customer Response). Another focus area is the supply chain. The entire supply chain in the country is dominated by unorganized players with several layers of intermediaries, thereby adding to wastage and pilferage at each level.

The country loses more than Rs 580 billion worth of agricultural food items due to lack of post harvesting infrastructure such as cold chains, transportation, and storage facilities. According to Confederation of Indian Industry (CII), post-harvest losses of fruits and vegetables are about 25% to 30% [23].India can ill afford losses of this magnitude. The only way out is to focus on creation of road, rail and air links and connect the same to cold storage facilities in different parts of the country. Considering the contribution of retail towards the GDP of the country it is time the government chips in with active participation. The net result would be a win-win situation for all the parties concerned.

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