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Retailing in India

Trends, Opportunities and challenges



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- Executive Editor



RETAIL MARKETING IN INDIA- SCOPE AND PROSPECTS

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Abstract

The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. India is the world's fifth-largest global destination in the retail space and India has become the second-largest consumer market also. India has the second largest population with affluent middle class, rapid urbanization and solid growth of internet. The prerequisite for this event was the liberalization of several sectors of the economy, whereas the main driver was a continuous increase of the GDP. As a consequence, the Indian retail market has shown impressive and constant growth. Although the global financial crisis affected the Indian economy, the prospects for the Indian retail market are encouraging. With a steadily growing economy, a broad middle class is evolving as progress is made in reducing poverty. Retailing has developed a more international flavour because of closer cultural and social interactions between various countries. Retailing is a vibrant part of our changing society and a major source of employment. This article is to discuss scope and prospects of retailing in India and provides a description of the status quo of India's retail market, including an analysis of Indian consumers and the positioning of Indian retailers.

Key Words: Indian Retailer, Indian Consumer, GDP, Organized Retail, Unorganized Retail.

Introduction:

The Indian Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's 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 Indian Retail Industry is gradually inching its way towards becoming the next boom industry.

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 India.

Modern retailing has entered into the Retail market in India as is observed in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof.

A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the



services sector are going to be the key factors in the growth of the organized Retail sector in India. The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the Indian Retail Industry.

In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the Indian Retail Industry to grow faster. Indian retail is expected to grow 25 per cent annually. Modern retail in India could be worth US\$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US\$ 16.7 billion business, growing at over 20 per cent per year. The future of the Indian Retail Industry looks promising with the growing of the market, with the government policies becoming more favorable and the emerging technologies facilitating operations.

Meaning:

Retailing derived from French word "retailer" means 'a piece of' or 'to cut up'. Retailing - All activities involved in the marketing of goods and services directly to the consumers for their personal, family or household use or Retailing includes all the activities involved in selling goods / services directly to final consumers for personal, non-business use.

Retailer - A dealer or trader who sells goods in small quantities, or one who repeats or relates

Retail - Any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution.

The Indian retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, include the corporate-backed hypermarkets, currently accounting for 14 % of mall space are expected to witness high growth and retail chains, and also the privately owned large retail businesses .And Unorganized retailing consists of small and medium grocery store, medicine stores, subzi mandi, kirana stores, pan shops etc.

Scope:

The scope of the Indian retail market is immense for this sector is poised for the highest growth in the next 5 years. The Indian retail industry contributes 10% of the country's GDP and its current growth rate is 8.5%. In the Indian retail market the scope for growth can be seen from the fact that it is expected to rise to US\$ 608.9 billion in 2009 from US\$ 394 billion in 2005.

The organized retailing sector in India is only 3% and is expected to rise to 25- 30% by the year 2010. There are under construction at present around 325 departmental stores, 300 new malls, and 1500 supermarkets. This proves that there is a tremendous scope for growth in the Indian retail market.

The growth of scope in the Indian retail market is mainly due to the change in the consumer's behavior. For the new generation have preference towards luxury commodities which have



been due to the strong increase in income, changing lifestyle, and demographic patterns which are favorable. The scopes of the Indian retail market have been seen by many retail giants and that the reason that many new players are entering the Indian retail industry. The major Indian retailers are:

- Pantaloons Retail India Ltd.
- Shoppers Stop
- Bata India Ltd.
- Music World Entertainment Ltd.

Judging the scope for growth in the Indian retail industry many global retail giants are also entering the Indian retail market. They are :

- Tesco
- Metro AG
- Wal- Mart

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

In June 2012, IKEA announced it had applied for permission to invest \$1.9 billion in India and set up 25 retail stores. An analyst from Fitch Group stated that the 30 percent requirement was likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision was welcomed by economists and the markets, but caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.

On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the



parliament despite heavy uproar from the opposition (the NDA and leftist parties). Some states will allow foreign supermarkets like Walmart, Tesco and Carrefour to open while other states will not.

The scope for growth in the Indian retail market is seen mainly in the following cities:

Mumbai, Delhi, Pune, Ahmedabad, Bangalore, Hyderabad, Kolkata, Chennai. The scope of the Indian retail market is very vast. And for it to reach its full potential the government and the Indian retailers will have to make a determined effort.

The Indian Retail sector has come off age and has gone through major transformation over the last decade with a noticeable shift towards organized retailing. A T Kearney, a US Based global management consulting firm has ranked India as the fourth most attractive nation for retail investment among 30 flourishing markets.

The retail market is expected to reach a whopping Rs. 47 lakh crore by 2016-17, as it expands at a compounded annual growth rate of 15 per cent, accordingly to the 'Yes Bank - Assocham' study.

The retail market, (including organized and unorganized retail), was at Rs. 23 lakh crore in 2011-12. According to the study, organized retail, that comprised just seven per cent of the overall retail market in 2011-12, is expected to grow at a CAGR of 24 per cent and attain 10.2 per cent share of the total retail sector by 2016-17.

In terms of sheer space, the organized retail supply in 2013 was about 4.7 million square feet (sq ft). This showed a 78 per cent increase over the total mall supply of just 2.5 million sq ft in 2012.

"Favourable demographics, increasing urbanization, nuclearisation of families, rising affluence amid consumers, growing preference for branded products and higher aspirations are other factors which will drive retail consumption in India," said DS Rawat, Assocham Secretary General.

Prospects:

In India, Retail is the new buzzword. While it has not as yet been accorded the status of an industry, it is witness to a large number of formats emerging in the market at a very fast pace. Changes in lifestyles, family structures, living spaces, aspirations and a corresponding rise in income levels have changed the consumer dynamics of the country in ways unimaginable even 10 years ago. Within retail, the emerging sectors would be food and grocery, apparel, electronics, e-commerce, fashion and lifestyle. Incorporation of technology in the organized retail segment has been something to reckon with in the past few years. Use of computers for merchandise planning and management, control of inventory costs and supplies and replenishment of goods done electronically, internal store billing, etc has changed the face of product retailing.

Online retail business is the next gen format which has high potential for growth in the near future. After conquering physical stores, retailers are now foraying into the domain of e-



retailing. The retail industry is all set to test waters over the online medium, by selling products through websites. Food and grocery stores comprises the largest chunk of the Indian retail market.

An emerging trend in this segment is the virtual formats where customer orders are taken online through web portals which are delivered at the door step the very same day or the following day. This trend has been catching up with most of the large sized retail chains that have their websites.

According to panel members at the seventh Food and Grocery Forum India, the opportunities in food and grocery retail in India are immense, given that it constitutes about 69 per cent of India's total retail market. The Indian retail market, currently estimated at \$490 billion, is project to grow at a compounded annual growth rate of 6 per cent to reach \$865 billion by 2023. Modern retail with a penetration of only 5% is expected to grow about six times from the current 27 billion USD to 220 billion USD, across all categories and segments.

Organized Retail is emerging as the new phenomenon in India and despite the slump, the market is growing exponentially. As economic growth brings more of India's people into the consuming classes and organized retail lures more and more existing shoppers, by 2015, more than 300 million shoppers are likely to patronize organized retail chains.

Consumer markets in emerging market economies like India are growing rapidly owing to robust economic growth. India's modern consumption level is set to double within five years to US\$ 1.5 trillion from the present level of US\$ 750 billion.

The growing middle class is an important factor contributing to the growth of retail in India. By 2030, it is estimated that 91 million households will be 'middle class', up from 21 million today. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States today.

Thus, with tremendous potential and huge population, India is set for high growth in consumer expenditure. With India's large 'young' population and high domestic consumption, the macro trends for the sector look favorable.

i) Market Size:

India's retail market is expected to grow at a Compound Annual Growth Rate (CAGR) of 10 per cent to US\$ 1.6 trillion by 2026 from US\$ 641 billion in 2016. While the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent. Indian retail market is divided into "Organised Retail Market" which is valued at \$60 billion which is only 9 per cent of the total sector and "Unorganised Retail Market" constitutes the rest 91 per cent of the sector.

India's Business to Business (B2B) e-commerce market is expected to reach US\$ 700 billion by 2020. Online retail is expected to be at par with the physical stores in the next five years.



India's total potential of Business to Consumer (B2C) is estimated to be US\$ 26 billion, of which \$3 billion can be achieved in the next three years from 16 product categories, according to a study by Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Institute of Foreign Trade (IIFT).

ii) Government Initiatives:

The Government of India has taken various initiatives to improve the retail industry in India.

- The Government of India may change the Foreign Direct Investment (FDI) rules in food processing, in a bid to permit e-commerce companies and foreign retailers to sell Made in India consumer products.
- Government of India has allowed 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services through the automatic route, thereby providing clarity on the existing businesses of e-commerce companies operating in India..

iii) Investment Scenario:

The Indian retail trading has received Foreign Direct Investment (FDI) equity inflows totaling US\$1.04 billion during April 2000–June 2017, according to the Department of Industrial Policies and Promotion (DIPP).

With the rising need for consumer goods in different sectors including consumer electronics and home appliances, etc. many companies have invested in the Indian retail space in the past few months-

- US-based footwear company, Skechers, is planning to add 400-500 more exclusive outlets in India over the next five years and also to launch its apparel and accessories collection, as it increases its operations in India.
- Paytm Ecommerce Pvt is planning its first major sale on the Paytm mall for the upcoming festive season and will invest Rs 1,000 crore (US\$ 156.14 million) for promotion, cash backs, and marketing.
- Investments by private equity firms in Indian retail sector reached US\$ 200 million in the first half of 2017, with seven new global brands entering India during the period.
- Amazon India plans to double its storage capacity in India by adding 14 new warehouses by June 2017, aimed at maintaining rapid growth in sales and catering to the remote parts of India.
- Bang and Olufsen, Danish stereo and speaker system maker, has plans of setting up about eight to ten standalone satellite stores by the end of FY 2017-18 in cities like Kolkata, Hyderabad, Ahmedabad, among others.
- Walmart, global retail giant, plans to open 50 new cash-and-carry stores in India over the next three to four years and locate half of the stores in Uttar Pradesh and Uttarakhand while creating over 40,000 jobs in the two states.



- Parle Agro Pvt Ltd is launching Frooti Fizz, a succession of the original Mango Frooti, which will be retailed across 1.2 million outlets in the country as it targets increasing its annual revenue from Rs 2,800 crore (US\$ 0.42 billion) to Rs 5,000 crore (US\$ 0.75 billion) by 2018.

Conclusion:

The Business of retail in India has seen significant changes in the last few years. From the study seen that the emergence of new formats and application of global concepts and constructs albeit with modifications to suit the Indian environment. The outlook for the Indian retail market is in general still encouraging because it is driven by a high growth rate of the GDP, increasing incomes for large subsets of the population, a rising and consumption-prone middle class and the sheer size of the country, with 1.2 billion people. The significance of retail is apparent not only from its contribution to various economies, but also by the level of employment generated by the industry. The need of the hour for Indian retailers is to develop systems and processes keeping the unique nature of the country in mind. In the retail trade, change is the only constant; survival in retail will depend on the ability to adapt to change. Overall, the stable democracy, which provides a predictable framework for investments, the steady growth of the GDP and its related rising disposable incomes, and the advantageous demo-graphics of the Indian population, has been helpful in the development of the Indian retail market.

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