

## AN INSIGHT INTO INDIAN RETAILING INDUSTRY- A HOLISTIC APPROACH

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### **Abstract**

*The advent of economic reforms made globalization an indispensable phenomenon across all the countries irrespective of some objection from some part of the world. Globalization in essence means free trade of goods and services, capital, intellectual skill and knowledge among different countries. This in turn offers variety of products & services to the global market. Due to which the market has become highly heterogeneous and complex and also made the competition stiffer among the marketers. The needs, tastes and preferences of the customers are rapidly changing at a much faster rate. In order to sustain this highly ever changing customer's needs, tastes, demands and preferences, the marketer need to be more organized to withstand & sustain the highly competitive market. Changing customer demand & lifestyle in turn has given rise to organized retailing in India.*

*Retailing is one of the rapidly growing sectors in the service industry. It is one of the active & attractive sectors of the last decade and has become an intrinsic part of everyday lives. This emerging market is witnessing a significance change in its growth and investment plan. There is a stiff competition between the retail giants (organized sector) and unorganized kirana shops.*

*The organized retail formats rapidly emerged in India because of the economic fundamentals, nuclear families, easy financing options, increase in the population of working women, rising disposable income, Dual Income No Kids (DINK). But its impact on unorganized sector is severe. It will take over the profitability and presence of unorganized sector in the years to come. Irrespective of that, organized retailers facing problems such as rigid tax structure, inadequate infrastructural facilities, high cost of real estate, stringent foreign direct investment (FDI) policies etc. Because of the support of government & the buying nature of the Indian consumer, unorganized retail sector is still predominating over organized sector in India, unorganized retail sector constituting 96% of total trade, while organized retailing accounts only for 4%. In the near days to come the entire gamut may get changed due to technological advancements and changing lifestyle of customers.*

*Currently, service sector's contribution to the Indian GDP is 59% out of which 14-15% is held by retail sector. Predictions revealed that by 2025 India will become the world's 5<sup>th</sup> largest consumer market.*

*This paper is an attempt made in this direction in order to have better insights about the retail sector in India. The paper is purely conceptual analysis discusses about the rapid changing phase of retail industry in India. It gives an insight into the impact of organized retailing on unorganized retail sector. This paper provides a holistic view of retail sector, the interlink ages between the categories of retail, consumer & their buying influencing factors. Finally it develops a model for strategizing the marketing for retail industry.*

**Key words:** Sustainable Competitive Advantage, Holistic View of Retail Sector, Strategizing the Marketing for Retail Industry.

### **Introduction**

Due to the globalization of products and services, there is a free flow of goods and services around the world. The markets are becoming highly heterogeneous and complex. At the same time customers are getting more information on the goods and services. The globalization in turn has made the competition stiffer. Hence, only those marketers / organizations, who can meet the requirements of customers, can withstand the competition and can, survive, but in the long run the organizations need to be more organized to sustain the competitive market. The ever increasing demand from the customer for new products and services in turn has given rise to Retailing.

The service sector is complex and diverged covering a large number of services ranging from hotels, retailing, hospitality etc., to hi-tech ones like the software and export of talents. They vary widely with respect to their skills, technology and markets. Each one is unique and distinctive by its own features. Retail sector is witnessing a sea change in terms of sophisticated technology, changing customer profiles and expectations, increased number of players in the market, real time transactions etc.

In the past, productivity led technological innovations provided avenues for employment in manufacturing while the current trend indicates the rapid expansion of jobs (both high & low end) in service sector like ITES, Retailing, Banking, Tourism etc. They are thus creating a new class of customers with different lifestyles and affordabilites. Further the demographic, ethnographic and other profiles of customers are changing drastically along with their needs, tastes, preferences & values. Mass media is contributing substantially to these trends. In essence the markets have become highly dynamic and marketers are finding it difficult to cope with these high velocity socio-economic changes. Quality and differentiation characterize the competitive markets. In this context being distinctive has become the core of all marketing strategies. This article tries to identify the same in case of retail sector. This article is divided into four sections as under:

Section I: Highlights the changing demographics of retail industry in India.

Section II: Brings out the Key drivers of Organized and Unorganized Retail sector.

Section III: Retail Sector and Customer: an Interface

Section IV: Elaborates Strategizing the Marketing for Retail industry.

### **Section I: Highlights the changing demographics of retail industry in India.**

The term 'retail' is defined as '*A sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). A sale to the ultimate consumer*'. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit. Retailing can be seen as intermediate between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

The Indian Retailing market is present since ancient times. In olden days Indian retail sector was known basically through mandis, haats, and meals. The exchange of goods and services were taken place through barter system. But, in the current scenario due to the technological up gradations, the concept of old traditional way of retailing has taken a new shape through organizing its sectors. The traditional ways of handling retailing operations are known to be Unorganized Retail sector and the systemized modern way of handing retailing is organized sector.

According to Global retail trends 2009, the Indian retail market reached US \$427 billion in the year 2010 and is expected to reach US \$ 637 billion by 2015. According to ACII and Yes Bank by 2015, the size of the rural economy is estimated to go up to US \$ 60.43 billion. It was US \$ 45.32 billion in the year 2010. Rural retail is growing at a much higher rate than urban retail and FMCGs are doing solid business in rural India with more than 4.1 million outlets.

Indian retail market offered a significant opportunity to wide group of companies. Because of low entry barriers & the high market potential market giants such as Mahindra Group, Reliance Industries, Birla group, Tata group of companies, Bharathi enterprises etc. have entered the market and now they have acquired prominent market share in the Indian retail market. Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences, in order to meet these diversified requirements, the marketers need to come out with a unique strategy such as localizing the products within the geographic zones. Cost and quality can play a prominent role.

According to the predictions of McKinsey that the Indian consumer market will quadruple by 2025 to US\$8.2 trillion in purchasing power parity (PPP) terms and become the world’s fifth-largest consumer market. This is been facilitated by the expanding Indian middle class, which by 2025 will be 583 million people, or 41percent of the population. The Indian middle age group population will bring new consumers into the market with higher consumption rates and other affordability factors.

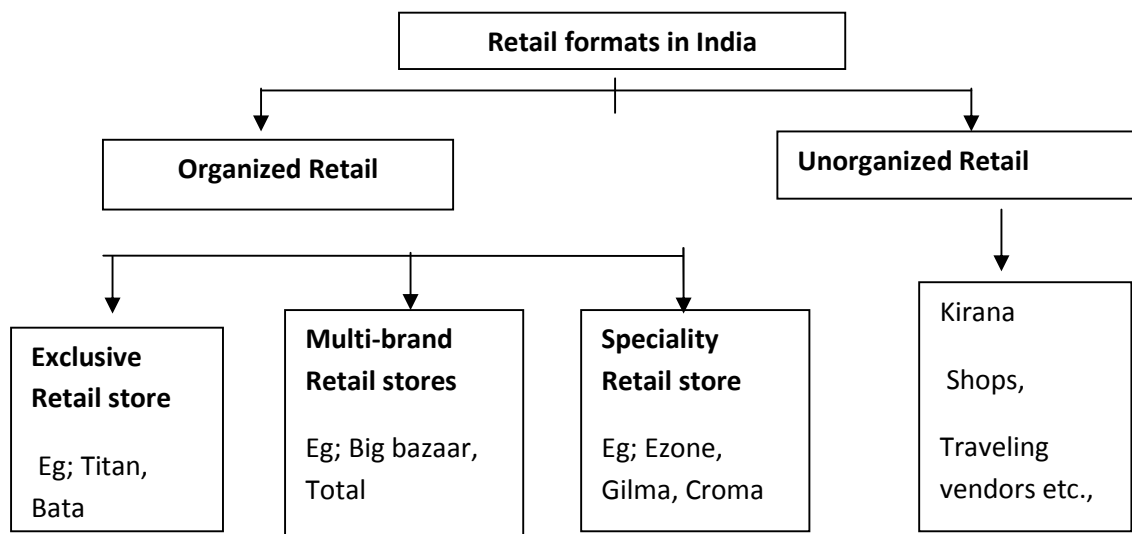
**Section II: Brings out the Key drivers of Organized and Unorganized - Retail sector in India.**

Indian Retailing is known to be one of the pillars of the economy and accounts for 15% of GDP. Next to Information Technology, it can be said Retailing is also one of the booming sector and currently Indian Retail market is found to be the fifth largest growing sector in the world as compared to that of the other emerging market categories. According to NCAER Indian retail Industry will grow upto US \$1 trillion by 2016-17.

The current size of the overall retail market in India is estimated to be about USD 450 billion and it is expected that Indian retail industry will contribute about 23% of the overall GDP within the next three years. Unorganized retail sector is still predominating over organized sector in India, unorganized retail sector constituting 96% (twelve million) of total trade, while organized trade accounts only for 4%.

In the case of organized retail sector, where the marketer have to operate through a legal license and register under government to market the product and at the same time accountable to pay income tax, sales tax for their business related activities. In the case of unorganized sector, it refers to traditional way of buying and selling of goods in an informal manner and their business operations are not regulated by government norms.

**Figure No. 1: Retail Formats in India**



Source: The Authors

Growth in Indian retail industry has been driven by the country's economic fundamentals over the past few years. Increasing number of nuclear families, easy financing options, increase in the population of working women, emerging opportunities in the service sector and rising disposable incomes during the past few years have been the key growth drivers of the organized retail sector in India.

**The Key drivers of Unorganized Retail sector in India.**

Unorganized retailers have experienced a decline in their share of business and margin after the entry of large organized retailers, which is seen a threat. There is no decline in overall employment in the unorganized sector. There is competitive response from traditional retailers through improved

business practices and technology up gradation. A majority of unorganized retailers are interested to stay in the business to meet the needs of competitive market in the future years and the next generation to continue the same.

Unorganized retailing i.e.owning a small petty shop is a major source of employment, it requires less amount of capital & labour. In India large number of working class people work on the daily wage basis, so small retailers /shops (unorganized retailers) are the best place for them to buy smaller quantity of products. Apart from that most of the Indian consumers are seasonal workers, hence they will buy their livelihood through cash during their employment period & during the unemployment period they will obtain the same through credit system. This facility is available only with unorganized retailers, but there is an exception that credit facility is also available in organized retailing only for purchase of consumer durables.

Customers give more preference to location utilities i.e., proximity and convenient shop timings. Unorganized retailers offer this benefit to Indian consumer. Operating cost of unorganized retailers is low because unlike organized retailers their retailing activities are not bound by legal norms. Because of the less emphasis is given to promotional activities, there is no promotion cost and labor cost will also be less as the majority of the labors will be their own family members.

### **The Key Drivers of organized Retail Sector in India**

The organized retail sector in the country, which presently accounts for close to 4 percent of total market, will increase its share to 14 to 18% by 2015. As per estimates made by ASSOCHAM, the organized retail in urban market is expected to grow at the rate of 50 percent to reach a value of 30 percent of the total retail market in India. Currently, the rural retailing accounts for 88% and urban retailing accounts for 12%.

India is popularly called as youth nation as the majority of the Indian population belongs to the age group of 20 – 45 years, with working population. Because of the increasing number of working people in a family, household's income level is also raising at a rapid rate with enough purchasing power. Availability of credit facility with less interest rates increases the purchasing power of the Indian consumer, in turn increases rate of their shopping. The demand for service-retailing is increasing , there is a shift toward service retailing from goods retailing hence entertainment parks, cafeterias, beauty salons, gyms, health care centers, fast food outlets, spas, etc are emerging.

Availability of skilled man power specialized in different & significant educational background and changing customer tastes and preferences toward shopping behavior demand for one stop shopping led to the emergence of malls, multiplexes, hyper markets etc. The advancements in information processing technology led to computerization of the various operations in a retail store such as billings, inventory management, bar coding, RFID, database management etc.

### **The impact of Organized Retailing on Unorganized Retail Sector**

Organized retail business will destroy the profitability of un-organized enterprises and pose a threat for them to go out of business. In response unorganized retailers have staged large-scale protests and demanded government action to protect their livelihoods. Irrespective of the fact that the unorganized share of the total retail market is reducing, *kiranas* have not suffered extensively. A report by the Indian Council for Research on International Economic Relations (ICRIER) found that only 1.7 percent of stores in the unorganized market close each year and that by 2013, unorganized retail businesses will still account for 85 percent of the Indian retail market.

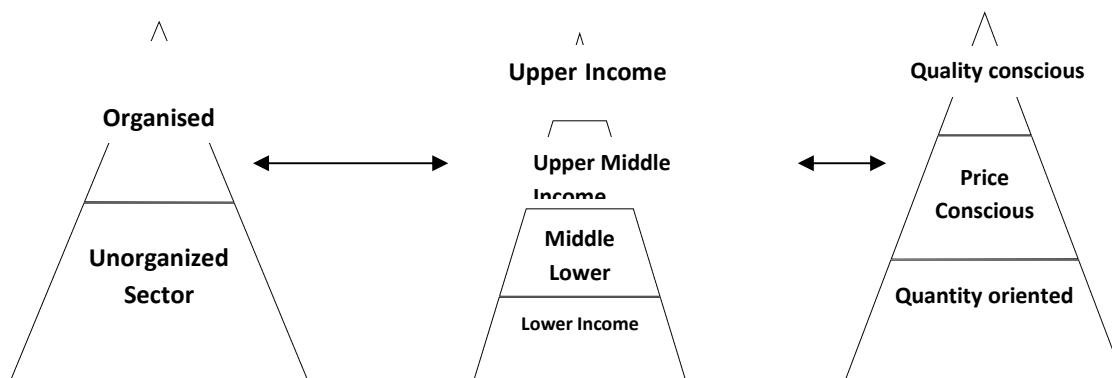
Irrespective of the advantages enjoyed by the organized retailers, some other problems/challenges are faced by them in Indian retail industry. In India, tax structure is more favorable to small retail business, no adequate infrastructure facility is available, real estate cost and transfer of property costs are very high, stringent rules of Foreign Direct Investment & customers are diversified with varying needs. In addition to that, malls are considered mostly for hanging outs & family outings. Most of the customers perceive that malls & multiplexes are highly expensive, many times they visit stores only for window shopping. The Indian customers are price sensitive and they look more for “value for the money”. In total, to remain in the marketplace, organized retailers have to spend effectively on all the 7 P’s to attract the customers in the long run.

### Section III: Briefing on Retail Sector and Customers: An Interface

The prospects for the Indian retail sector in the coming decade lie in the evolving consumption patterns of Indian consumers. The modern Indian consumer is seeking more value in terms of improved availability and quality, pleasant shopping environment, financing options, trial rooms for clothing products, return and exchange policies and competitive prices. This has created a rapidly growing opportunity for organized, modern retail formats to emerge in recent years and grow at a fast pace. In the current scenario, the consumers are educated and earning hence has more disposable incomes. The rising Indian households with Dual Income No kids which allows for the purchase of items in excess of basic necessities.

Consumer buying habits, purchase decisions can be separated into two categories: status-oriented and indulgence-oriented. These categories includes Consumer durables such as refrigerators, dish TV, DVD player, home theatre, digital & LCD TV, washing machines, dishwashers and ovens, iPods, high-end digital cameras, camcorders, gaming consoles etc., Consumers in the status category buy because they need to maintain a position in their social group. Indulgence-oriented buying happens with those who want to enjoy life better with products that meet their requirements. This can be presented graphically with the help of pyramids as shown below.

Figure No. 2: Holistic view of Retail Sector.



Pyramid 1: Type of Retail Sector

Pyramid 2: Corresponding customer categories  
By their levels of income.

Pyramid 3: Most influenced  
Factors

Source: The Authors

The interlink age drawn between the categories of retail, consumer and the influencing factors as shown in the above pyramids is self-explanatory. In India, organized retail sector constitutes only two percent of the entire retail market and 98 percent of the Indian market is flooded with an unorganized retailers. The major customers for organized retail sector are of rich income group. These groups of consumers are quality conscious & variety seekers. Major customers for an

unorganized retail sector are middle income group and lower income group. These groups of consumers are concerned more about the availability of quantity goods at lesser prices.

In addition to this, upper income and upper middle income group are literates and have more access to information through technological advancements prefer organized retail sector. In contrast, lower middle and lower income group constitutes both literates and illiterates with the less purchasing power and lack of market information opt for unorganized retail sector.

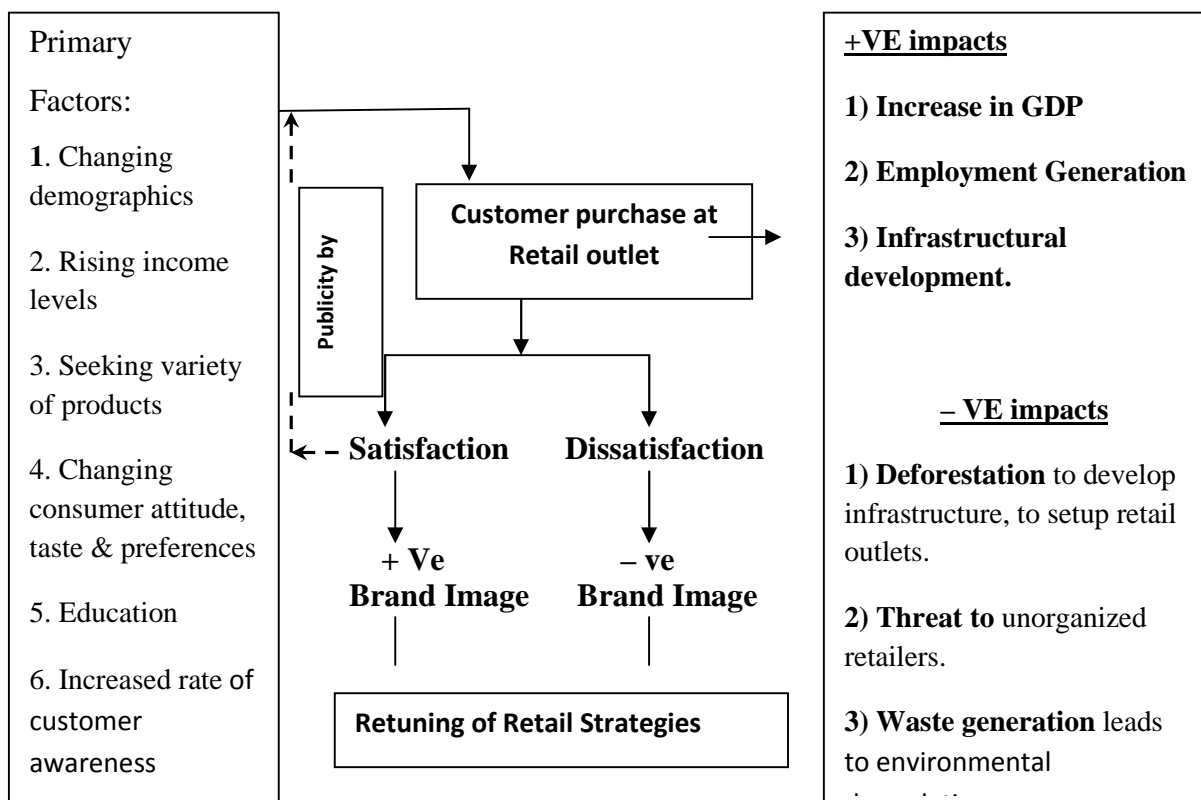
#### Section IV: Elaborates Strategizing the Marketing for Retail Industry

In order to succeed in the chosen target market, the retailer must develop effective marketing-mix strategies. The marketing mix constitutes product assortment, Competitive price, location, promotion and customer service designed to create high in store customer traffic.

The Retail industry is a fast growing industry in the service sector. The country's favorable demographic profile and the high growth in urbanization, as well as retail spending, increased purchasing power etc. are attracting business houses to retail market. Retail industry is able to generate 35 million job opportunities, and is the biggest contributor to India's GDP after agriculture. The growth potential of the industry is such that in the next ten years nearly one million new jobs will be created in the organized retail sector alone. The observed factors which influence customers to make purchases in the retail market can be diagrammatically presented as shown below.

#### CONSUMERS

#### IMPACT ON COUNTRY



**Figure 3: A Model Strategizing the Marketing for Retail Industry**

Source: The Authors

From the above chart it can be seen that the rising income coupled with changing demographic profile, availability of credit facility and demand for variety products have been the major influencing factors for consumer to select a particular retail outlet. If the consumer is satisfied with

the purchase experience, then the consumer repurchase may take place. The satisfied consumer will give free publicity through positive word of mouth. This in turn leads to build a favorable brand image for the retailer and increases the customer base. In the case of dissatisfied customers, the customers frames a negative image about the retail outlet, this in turn makes a retailer to lose a customer.

To meet the changing demands and preferences of the customers, the retailers can come out with unique pricing strategies for different category of customers (see figure No. 2), such as the quantity conscious customer's, retailers can be target having the combination of bundled pricing strategy, multi unit pricing, Everyday low pricing strategy (EDLP). The quality conscious customers can be approached through differentiated pricing strategy.

In order to meet the needs and expectation of the ever changing customer demand the retailer need to redesign the strategies from time to time. The retailer can attract the customers through attractive sales promotional techniques through discount sale, premiums, gifts, free coupons and vouchers, price redemption etc. These sales promotional techniques can be clubbed with the loyalty programs, sponsored events. The retailer can make use of ICT's for creating awareness.

The organized retail sector in order to withstand the highly competitive environment, the sector need to focus on e-tailing, e-commerce, mobile retailing, social media and digital space. Two- third of the retailing involves impulse purchases, demanding effective merchandise assortment on the retail store. In other terms the growth of organized retail sector will have negative impacts on unorganized retailers. To survive against the onslaught of organized or modern retail, small retailers and 'kirana' stores need the support of government and its policy initiatives.

The government-commissioned report on impact of organized retailing on the unorganized sector has found that small store-owners will be affected adversely with the entry of large supermarket chains and departmental stores, while farmers and consumers will benefit significantly. However, the adverse impact on turnover and profit of small 'kirana' stores will weaken over a period of time, if these unorganized sector store owner upgrade their business approach. Unorganized retailers can form cooperative societies and associations for procuring goods directly from suppliers and farmers.

The Government can help unorganized retail to survive by ensuring better credit facility made available from banks and financial institutions; training programme can be provided in modernization of unorganized sector such as mandis through public-private partnerships.

## Conclusion

In order to thrive in the hyper competitive climate of the future, Retail sector of all sizes and types must focus on the basic level of any business transaction – namely understanding how consumers needs, preferences, lifestyle changes and their product purchase decisions. Retailers must align their strategies in order to meet the highly competitive market and must tune to the structural transformation taking place at both the macro and micro levels through constant innovation and customer feedback for effective and efficient use of resultant knowledge. The role of technology in supporting the strategic planning and implementation process is indeed critical.

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