



Retail Market in India: Changing Scenario

G. S. Panikar

N.G. Acharya & D.K. Marathe

College of Arts, Science and Commerce, Mumbai

Received: 23 Nov 2012

Reviewed & Accepted: 28 Nov 2012

Abstract

The relatively stable economic environment, favourable demographic scenario and the attitudinal shift in the psyche of the new Indian consumer offer organised retailing both opportunities and challenges. This along with experimentation in retail formats and entry of international players is slowly transforming the Indian retail market.

Indian retailers need to have a renewed approach to retail marketing so as to gain a competitive advantage and to gain an entry into the hearts and minds of the consumer. Retailers should be willing to experiment with retail formats including exploring online retailing and tie ups with traditional retail formats like kirana stores. The retail product offering should offer value for money and retailers need to put in more efforts to promote private labels and reach out and cater to a wider customer base across India including smaller towns and rural areas which also pose significant opportunity. The retail experience however should go beyond this to create experiences which should also entertain and engage the consumer through various touch points to increase their involvement with the retail brand. There are operational and infrastructural issues like lack of trained manpower and the need for more investment in information technology and a stronger supply chain and back end to streamline operations and plug in shrinkage and wastage so that Indian retailers can benefit from the opportunities posed by the retail market.

Keywords:

RETAIL MARKET IN INDIA: CHANGING SCENARIO

India used to be a protected, bureaucratic market with socialist policies which restricted the role of the private sector. Today India is among the fastest growing economies in world with many sectors open to private investment and with growing and promising consumer markets. Besides it also has a positive enabling environment with a robust banking system and strong and improving infrastructure in terms of telecom, IT and road and rail networks (Mittal, 2010). These changes have made the Indian retail market very attractive to investors and the sector has grown in leaps and bounds over the last decade. The retail sector contributes to over 20% of the India's gross domestic product (GDP) and around 8% of total employment (PwC, 2012).

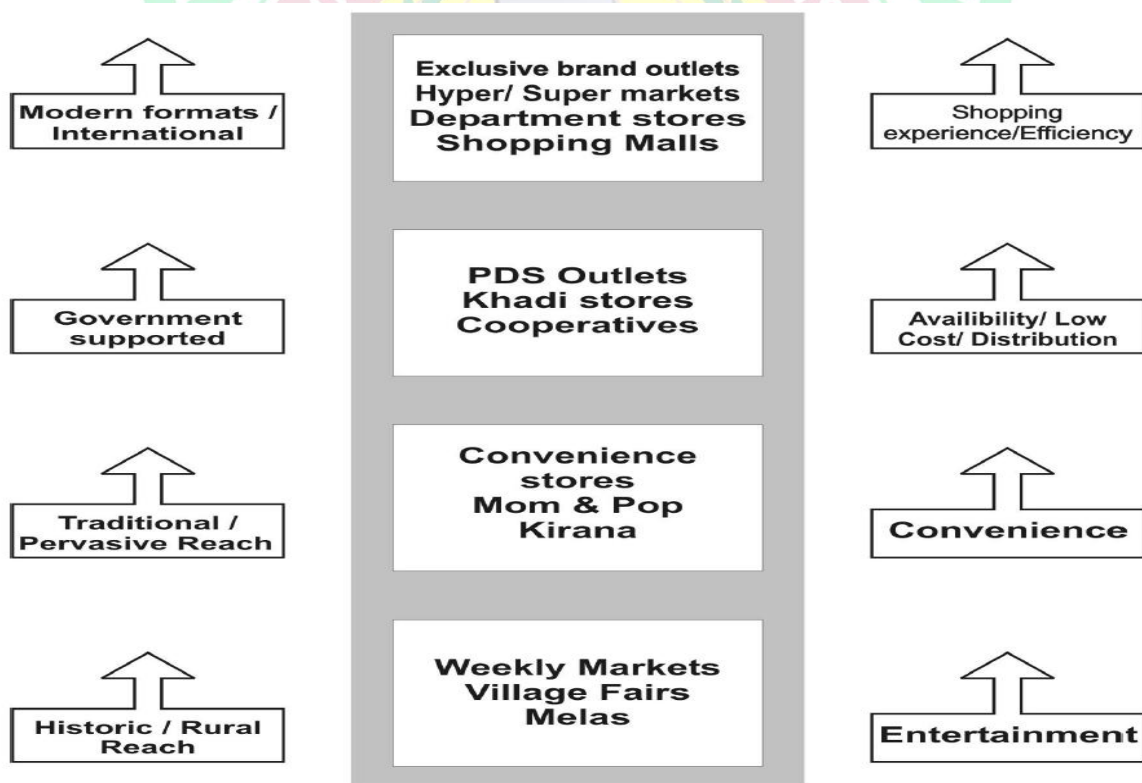
One might argue that even though India managed to withstand the impact of the global recession, the current economic scenario in India is not all that bright with high inflation, slowing growth rates and reduced investor confidence due to lack of proactive policy measures. It is true that both consumers and retailers are being negatively affected as currently inflation is supply-based, rather than demand-driven. Before the downturn seen in the economy, consumers subsidised their spending through credit or dipping into savings, but now this might be difficult and not sustainable. As a consequence both margins and sales of retailers are under pressure (PwC, 2012). However, inspite of the current situation, India is still among the most attractive retail destinations with many large global retailers waiting to open shop if the government shows them the green flag. It is expected that the Indian retail market will exceed 1.3 trillion USD by 2020 from the existing market size of 500 billion USD. While the penetration of modern retailing across categories is only around 5%, it is expected to grow about six times from the current 27 billion USD to 220 billion USD (PwC, 2012).

With almost 60% of the Indian population below 35 years of age, India is among the world's youngest countries. We have a large consuming middle class with growing disposable income. The urban centres now see an increasing number of dual career families who seek out modern retailing as a convenient, time saving option that suits their lifestyle. This new segment of young, upwardly mobile professionals (or 'yuppies' as some might called them) are more risk taking and aspirational than previous generations and are willing to spend to have a lifestyle that fulfils these aspirations. A segment of them has exposure to the best international retail experiences and seeks the same when in India. Besides shopping is no longer viewed by them as a chore but as an experience which translates to higher

expectations on their part and thereby more opportunities for retailers to enhance this shopping experience. To put it in the words of Kishore Biyani (2007), “Change and Confidence is leading to rise in Consumption”. He calls it the ‘3 C Theory’ with the 3 Cs standing for Change, Confidence and Consumption. Various international studies like the MasterCard Worldwide Index of Consumer Confidence rank Indian consumers among the most confident consumers in the world (PwC, 2012). This along with factors like increasing urbanisation, changing family structures, easier access to credit and growing consumer awareness are driving forces for growth in organised retailing in India.

Through this paper I look at the key changes in the retail market and consumer preferences and the steps that retailers are taking or should take to deal with the changing retail scenario. The paper is based on literature review and secondary research and on my personal experiences with the retail sector.

EVOLUTION OF THE INDIAN RETAIL MARKET



Source: ICICI Bank (2004) White Paper Pitches for Foreign Direct Investment in Retail (Akhter and Equbal, 2012)

The above diagram shows how the Indian retail market has evolved from rural haats and bazaars to modern retailing formats and how the shopping experience has also transformed simultaneously. However it must be remembered that different parts of India are still on different stages of this continuum and these different stages co-exist even in the same market.

KEY PLAYERS

| | |
|---|---|
| Pantaloon Retail Ltd. (Future Group Venture) | Over 2 million sq ft of retail space spread over 35 cities with 65 stores and 21 factory outlets |
| Shoppers Stop (K Raheja Group venture) | Over 3.21 million sq ft of retail space spread over 24 cities with 54 stores |
| Spencers Retail (part of RP-SG Group) | Retail footage of close to 1 million sq ft across 45 cities with 200 stores |
| Lifestyle Retail (Landmark Group venture) | Approximately 15 lifestyle and eight Home Centre stores |
| Bharti Retail | 74 Easyday stores with plans to invest about 2.5 billion USD over the next five years to add about 10 million sq ft of retail space in the country 18 Best Price cash and carry stores |
| Reliance Retail | 700 stores with a revenue of 7,600 crore INR |
| Aditya Birla 'More' | 575 stores with approximate revenue of 2,000 crore INR. Recently, purchased stake in Pantaloon Retail |
| Tata Trent | 59 Westside stores, 13 Starbazaar hypermarkets and 26 Landmark bookstores |

Source: PwC, 2012 and company websites

CHANGING RETAIL SCENARIO: GETTING RIGHT THE RETAIL MIX

Over the last decade, India has witnessed frantic development in the retail sector. During the initial boom in the retail market large investments were made in shopping malls which were set up in almost every nook and corner of cities without careful planning on catchment area or tenant mix. Some of these shopping malls today languish with low footfalls, lack of tenants to fill up the mall, no anchor store and an overall poor tenant mix. The way forward for retailers is to get the catchment area right, rope in an anchor that ensure constant footfalls, get a tenant mix that will cater to different needs of the same consumer or to needs of different sets of consumers and to create a retail experience that will 'wow' the consumer.

Hypermarkets and food courts as anchors: It has been seen that hypermarkets, multiplexes and foodcourts can act as a strong anchors bringing in regular footfalls. Hypermarkets have been big crowd pullers in many shopping malls. InOrbit shopping mall in Malad, Mumbai has a hypermarket - Hypercity and a big food court. Pantaloon Retail Group sensed the opportunity and took over the management of Shoprite (renamed as Foodrite) from the South

African promoters of the hypermarket which is spread over 75,000 sq.ft. Foodrite is one of the key anchors of the Nirmal Lifestyle Mall in Mulund along with Shoppers Stop, McDonalds and a multiplex. This was done inspite of the fact that they already had a Big Bazaar hypermarket operating as one of the key anchors in a shopping mall nearby.

‘Format’ting the retail landscape

Modern retailers have to carefully decide the format that they would want to adopt. This is a strategic decision as the format often influences the footfalls and the kind of consumers who visit the store. Innovations in format can be a key differentiator for retailers. However considering the diverse nature of the Indian market, choice of format cannot be based only on an innovative idea, or on a successful international model; it also needs to take into the consumer buying behaviour and the characteristics of the catchment area. It could be argued that the players who will lead in the long run would be those who can adapt or fine tune their store format on the basis of their learnings about the consumer and the local conditions.

Entry of foreign players in cash and carry format: The cash and carry format caters to customers who can purchase in bulk to resell and hence seek bulk discounts and offers. Bharati Wal-Mart (a joint enterprise between Bharti Enterprises and Wal-Mart) have opened 18 ‘Best Price’ stores across India, German retailer Metro has opened 6 stores, Carrefour has opened one in Delhi and Tesco has tied up with Tata Trent to set up their stores in India. The cash and carry segment is going to witness tremendous growth the next few years with players like Bharti Wal-Mart having plans to open about 60 stores across the country over the next 16 months (TNN, 2012).

Unexplored formats like ‘Category killer’ offers scope: An area that is still largely unexplored in India is that of a category killer, wherein a retailer offers all possible range within a particular product category under one roof. While there are regional players like Nallis in the south operating in this category since many years, it is still an area not capitalised upon by the newer retailers (Bhatt, 2007). Category killers like Home Depot have long been eyeing the Indian market. Ikea plans to invest Rs.10,600 crore in India and was among the first international retailers to announce entry into India after the government’s decision in January 2012 to allow 100% foreign direct investment (FDI) in single-brand retail (Agarwal, 2012). However maintaining a large inventory in every category will be a challenge for such stores.

Aggarwal et Goyal (2009) have identified retail segments according to their importance for being purchased through organised retailing as food and grocery; clothing, apparels and

accessories; catering services; health and beauty care services; pharmaceuticals, watches; mobile, accessories and services; books, music and gifts and foot wares and entertainment. They also suggest the most suitable formats for these segments: Food and grocery-Supermarket; Health and beauty care services-Supermarket; Clothing and Apparels'- Mall; Books; Music and Gifts-Convenience store and Mall; Catering services-Mall; Entertainment-Mall; Watches-Hypermarket; Pharmaceuticals-Hypermarket; Mobile, accessories & Services-Hypermarket; Foot wares-Departmental store. While such studies can be useful, there is no guarantee that a particular format will always work well for a particular product category and thereby exists the need to experiment.

Experimenting the Trial and Error way: Retailers need to experiment with formats and product mix. Pantaloon Retail has been experimenting with formats to cater to a wider segment of consumers in the market. The formats and new segments introduced by them include that of Fashion Station (popular fashion), Blue Sky (fashion accessories), aLL (fashion apparel for plus-size individuals), Collection i (home furnishings), Depot (books & music) and EZone (Consumer electronics) (Tripathi, 2008).

Tie-up with kirana stores: India was and can still be called a nation of 'kirana' stores. That kirana stores will be wiped off with the entry of modern retail is something that has definitely not happened. Kirana stores will also evolve to keep up with the changing markets.

"Kiranawalas know the business, they are connected with their customers and learn very fast and the way our whole ecosystem of the social infrastructure is set up in terms of housing colonies and roads, there is no way a modern retailer can even set up a 2500-square feet shop next to the housing colony. There is no way a customer can reach to buy groceries in 20 minutes because the roads are not that good. So kiranas will actually sustain.... the second generation of the kiranas is entering the business who are more educated, who are savvier. – B.S. Nagesh, Vice Chairman, Shoppers Stop (ET Now, 2012)

Organised retail also needs to learn from kirana stores. Some of the reasons kirana stores still flourish are due to their strong understanding of customer needs and preferences, localised product mix, maintaining excellent personal relations, the credit system and home delivery. Retailers could tie up with local kirana stores to create convenience stores that offer the choice and benefits of modern retailing along with the convenience, familiarity and personal touch of the kirana store. They could provide backend support and help kirana stores to modernise, upgrade systems and help them in procuring products at cheaper prices.

Etailing is also set to grow in India; the past year has even seen many egrocers wherein the front end is websites and backend is mainly warehouses. These include portals like www.araamshop.com and www.kiranawalla.com. Some of these portals operate in tie-up with the kirana shops and when a customer places an order online, the order is communicated to the kirana partner shop nearest to the customer and they deliver the order (PwC, 2012).

Retail product offering: Ikea, has also decided to modify its international store format and product range and designs to suit the tastes of the Indian consumer. Starbucks which entered India through a joint venture with Tata Global Beverages apart from their coffee experience offers a menu which is a blend of local and western tastes and includes items like Elaichi Mawa croissants and tandoori paneer rolls (AP, 2012).

To hook on the value conscious Indian customer, it is very important for the retailer to get the price value equation correct. Private labels are where retailers can derive their margins from. As the consumers are now familiar with these new formats and have started to trust the places they shop in, retailers should invest more in sourcing and branding of private labels which can be effectively targeted to the consumers from the middle class seeking more value for money.

Increasing penetration

In future retail growth is predicted to be coming from the smaller yet fast growing towns. According to NCAER estimates of 2008, the share of 35 towns with a population more than 1 million was expected to grow from 10.2% then to 14.4% by 2025. At the same time, the share of these towns in the retail pie would increase from 21% in 2008 to 40% in 2025. These top 35 to 40 towns should be the target areas for retailers to drive growth in their business.

Growth in the retail segment while driven by metros and mini-metros is not limited to urban areas; rural India is also witnessing a retail transformation. Besides India's rural population of 700 million offers a huge opportunity for retailers. NCAER estimates show that rural India accounts for 70% of India's population, 56% of national income, 33% of savings and 64% of expenditure (Ganesh, 2009). The rural economy growing at around 8% per cent p.a. will be adding \$90-100 billion of new consumption in the next three years, over the base of \$240-250 billion in 2010 (Nangia, 2010). Existing rural retail players like ITC's E-chaupal, Hariyali Kisan Bazaar of the DCM Shriram Group and Aadhar are already operating in rural India. However everything is not going perfect for these players. For instance Godrej had to sell off 70% stake in Aadhar to the Future group as it was no longer feasible for them to run the operations on their own. While the overall cost of running retail operations in rural India

might be lesser it is more difficult to reach out to the rural consumer. A challenge in the rural market will be to deal with poor infrastructural facilities and adapting to local languages and customs. A retailer might have to use unconventional means to reach out to the consumers and to introduce them to a new way of shopping. It should also be kept in mind that many consumers in rural India have had an exposure of urban India and the higher income groups in rural areas can form an important segment that can be targeted.

Seeking out new customers

Kishore Biyani (2007) categorises consumers into three categories: the consuming class, the serving class and the struggling class. While the consuming class comprising of the upper and middle class make up only 14% of the total population, most products in the market are made for them. On the other hand the serving class, around 42% of population which includes people in occupations like drivers, peons etc., is ignored by most retailers but holds great potential if targeted carefully. Retailers need to come up with a retail mix and environment that also caters to the serving class. Big Bazaar stores' design, layout and communication are designed such that no consumer feels intimidated to enter the store. The serving class might get intimidated in retail environments that are too organised and clean and might also have the perception that such stores are too expensive. Hence the store layout and ambience plays an important role in building the store perception in the minds of the consumers and to enable new consumers to adopt a new retail format.

Revamping the old Communication Mix: India has more than 100 million Internet users, half of whom make online purchases (PwC, 2012). Retailers have to come up with innovative ways to reach out to the Internet savvy younger generation especially in urban areas. The new Indian consumer who is no longer sceptical and is an early adopter could be reached out through Internet and mobile phone marketing (PwC, 2012). Engaging a customer and increasing loyalty and repeat purchases are not influenced merely by discount vouchers or a loyalty card; it depends on how the retailer manages the whole experience. Managing the customer experience is no longer limited to in-store initiatives; today it involves managing multiple touch points including call centres, online portals and social networking sites.

Some challenges

Key challenges in faced by Indian retailers include high real estate costs, diverse consumer needs and a lack of strong back end infrastructure and supply chain especially with respect to food and grocery retailing. The larger Indian business groups are tying up with some of the leading international retail chains for back end support. For instance Bharati Retail has a tie

up with Wal-Mart for their Easyday and Best Price chain of stores. Overall there is need for more investment in IT, logistics, inventory and supplier management, and customer retention. Another challenge is the dearth of trained manpower in the sector. Retailers could tie-up with universities to train people in different areas of retail and could offer internships in their stores. For instance, B.S. Nagesh of Shoppers Stop launched the TRRAIN (Trust for Retailers and Retail Associates of India) initiative in a tie-up with Aptech to train their workforce (Sabarinath, 2011). Another area of concern for many retailers is retail frauds due to shoplifting, theft or plain administrative errors. According to the Global Retail Theft Barometer (GRTB) 2011 which covers 45 nations, the shrinkage in India stood at 2.38%, the highest in the world, against the average global shrinkage at 1.45%. While some of the larger retailers have CCTV and some form of surveillance, there still needs to be a lot of investment in this area (PwC, 2012).

It is time for Indian retailers to take account of their retail strategies and step up their moves to face competition from leading global players eyeing the Indian market. They have to experiment, innovate and consolidate to cater to a demanding and diverse consumer base that seeks a shopping experience that goes much beyond offering value.

REFERENCES

- Agarwal S. (2012) '*Ikea plans to tweak designs for Indian market*' Retrieved from www.livemint.com/Industry/vOC1sVqJbzs1koe1cHiHdI/Ikea-plans-to-tweak-designs-for-Indian-market.html on 24/11/2012
- Aggarwal M. and Goyal B.B. (2009), '*Organized retailing in India- an empirical study of appropriate formats and expected*' Global Journal of Business Research, Vol. 3, No. 2, Hilo: The Institute for Business and Finance Research
- Akhter S. And Equbal I. (2012), '*Organised Retailing in India – Opportunities and Challenges*' International Journal of Multidisciplinary Research, Vol. 2, No. 1, Zenith International Research & Academic Foundation (ZIRAF) India
- AP (2012), '*Seattle-based coffee giant Starbucks opens first India store in Mumbai*' Retrieved from http://articles.economictimes.indiatimes.com/2012-10-19/news/34584407_1_tata-starbucks-seattle-based-coffee-giant-howard-schultz on 24/11/2012
- Bhatt M. (2007) '*Category-killer on the prowl in India*' Retrieved from http://articles.economictimes.indiatimes.com/2007-06-16/news/28489074_1_killer-instinct-retail-chain-category on 23/11/2012

- Biyani K. and Baishya D. (2007) *It happened in India: the story of Pantaloons, Big Bazar, central and the great Indian consumer*. Kolkata: Rupa & Co.
- ET Now (2012), '*FDI in retail will make kirana stores more profitable: BS Nagesh, TRRAIN*' Retrieved from http://articles.economictimes.indiatimes.com/2012-11-22/news/35300782_1_multi-brand-fdi-pantaloon on 24/11/2012
- FICCI and PWC: *The Indian Kaleidoscope: Emerging Trends in Retail* (2012) Gurgaon: PwC
- Ganesh U. (2009), '*Retailing in Rural India – Markets and Opportunities*' Epublishing: Chillibreeze
- Mittal R. B. (2010), *Retail Evolution, Trends and Business Opportunities in India*, Presentation uploaded by European Business Group India. Retrieved on 23/11/2012
- Nangia S. (2010) '*Rural retail: To touch \$25 bn by 2020*' Retrieved from [http://businesstoday.intoday.in/story/rural-retail-to-touch-\\$25-bn-by-2020/1/11281.html](http://businesstoday.intoday.in/story/rural-retail-to-touch-$25-bn-by-2020/1/11281.html) on 22/11/2012
- Sabarinath M. (2011), '*Pioneer of organised retail B S Nagesh ties up with Aptech to sharpen skills of retail workforce*' Retrieved from http://articles.economictimes.indiatimes.com/2011-12-02/news/30467921_1_retailers-b-s-nagesh-aptech on 24/11/2012
- Tripathi A. (2008), "*Emerging Trends in Modern Retail Formats and Costumer Shopping Behaviour in India Scenario: A Meta Analysis and Review*". In Mittal R.K. and Handa Meenakshi (Eds.) "*Unleashing the Power of Retail*". Delhi: Wisdom Publications
- TNN (2012) '*Bharti Wal-Mart to open store in Hyderabad*' Retrieved from http://articles.timesofindia.indiatimes.com/2012-09-23/hyderabad/34040283_1_bharti-wal-mart-bharti-enterprises-multi-brand-retail-sector on 24/11/2012