

# GLOBALISATION - ITS IMPACT ON INDIAN RETAIL INDUSTRY - OPPORTUNITIES AND CHALLENGES

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## ABSTRACT

This paper provides detailed information about globalisation and its impact on the growth of retailing industry in India. The Indian retail industry is divided into organised and unorganised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. The study observes that most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding. Long intermediation chains would increase the costs by 15 per cent.

**Key Words:** Globalisation, Retailing, Organised Sector, Unorganised Sector.

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## INTRODUCTION

This paper provides detailed information about globalisation and its impact on the growth of retailing industry in India. It examines the growing awareness and brand consciousness among people across different socioeconomic classes in India and how the urban and semi-urban retail markets are witnessing significant growth. It explores the role of the Government of India in the industry's growth and the need for further reforms. 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 India Retail Industry to grow faster. The paper includes growth of retail sector in India, strategies, strength and opportunities of retail stores, retail format in India, recent trends, and opportunities and challenges. This paper concludes with the likely impact of the entry of global players into the Indian retailing industry. It also highlights the challenges faced by the industry in near

future.

## BACKGROUND

The Indian retail industry is divided into organised and unorganised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores.

Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience. The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 9-10 per cent by the year 2010 bringing in a huge opportunity for prospective new players. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

#### **POSITIVE ASPECTS OF GLOBALIZATION**

- Increased free trade between nations
- Increased liquidity of capital allowing investors in developed nations to invest in developing nations
- The business market in the world has no boundaries, they can Market their products in any part of the world.
- Corporations have greater flexibility to operate across borders
- Global mass media ties the world together
- Increased flow of communications allows vital information to be shared between individuals and corporations around the world
- Greater ease and speed of transportation for goods and people
- Reduction of cultural barriers increases the global village effect
- Spread of democratic ideals to developed nations
- Greater interdependence of nation-states

#### **NEGATIVE ASPECTS**

- Increased flow of skilled and non-skilled jobs from developed to Developing nations as corporations

seek out the cheapest labor

- Foreign salaries attracted a lot of human capital which affected our Productivity.
- Lead to a great dissatisfaction among the Under Developed/developing countries.
- Increased the chances of inferiority complex among these nations.
- Increased likelihood of economic disruptions in one nation effecting all nations
- Corporate influence of nation states far exceeds that of civil society organizations and average individuals
- Greater risk of diseases being transported unintentionally between Nations
- Spread of a materialistic lifestyle and attitude that sees consumption as the path to prosperity

#### **INVESTMENT OPPORTUNITIES IN THE RETAIL SECTOR**

AT Kearney's study on global retailing trends found that India is the least competitive as well as least saturated of all major global markets. This implies that there are significantly low entry barriers for players trying to setup base in India, in terms of the competitive landscape. The report further stated that global retailers such as Walmart, Carrefour, Tesco and Casino would take advantage of the more favourable FDI rules that are likely in India and enter the country through partnerships with local retailers.

#### **OTHER RETAILERS**

Such as Marks & Spencer and the Benetton Group, who operate through a franchisee model, would most likely switch to a hybrid ownership structure. A good talent pool, unlimited opportunities, huge markets and availability of quality raw materials at cheaper costs is expected to make India overtake the world's best retail

economies by 2042, according to industry players. The retail industry in India, according to experts, will be a major employment generator in the future. Currently, the market share of organised modern retail is just over 4 per cent of the total retail industry, thereby leaving a huge untapped opportunity.

### **THE POTENTIAL OF THE INDIAN RETAIL SECTOR**

The high growth projected in domestic retail demand will be fuelled by

- The migration of population to higher income segments with increasing per capita incomes
- An increase in urbanisation
- Changing consumer attitudes especially the increasing use of credit cards
- The growth of the population in the 20 to 49 years age band
- There is retail opportunity in most product categories and for all types of formats
- Food and Grocery: The largest category; largely unorganised today
- Home Improvement and Consumer Durables: Over 20 per cent p.a. CAGR estimated in the next 10 years
- Apparel and Eating Out: 13 per cent p.a. CAGR projected over 10 years
- Opportunities for investment in supply chain infrastructure: Cold chain and logistics
- India also has significant potential to emerge as a sourcing base for a wide variety of goods for international retail companies
- Many international retailers including Wal-Mart, GAP, JC Penney etc. are already procuring from India.

The sector is expected to see an investment of over \$30

billion within the next 4-5 years, catapulting modern retail in the country to \$175-200 billion by 2016, according to Technopak estimates.

Of the total organised retail market of Rs 550 billion, the business of fashion accounts for Rs 300.80 billion, which translates into nearly 55 per cent of the organised retail segment in the country.

Total fashion sector was estimated at Rs 1,914 billion and forms about 15 per cent of the country's retail market of Rs 12,000 billion. Commanding such a large chunk of the organised retail business in India, fashion retailing has indeed been responsible for single-handedly driving the business of retail in India.

### **CHALLENGES & OPPORTUNITIES**

Retailing has seen such a transformation over the past decade that its very definition has undergone a sea change. No longer can a manufacturer rely on sales to take place by ensuring mere availability of his product. Today, retailing is about so much more than mere merchandising.

It's about casting customers in a story, reflecting their desires and aspirations, and forging long lasting relationships. As the Indian consumer evolves they expect more and more at each and every time when they step into a store. Retail today has changed from selling a product or a service to selling a hope, an aspiration and above all an experience that a consumer would like to repeat.

For manufacturers and service providers the emerging opportunities in urban markets seem to lie in capturing and delivering better value to the customers through retail. For instance, in Chennai CavinKare's LimeLite, Marico's Kaya Skin Clinic and Apollo Hospital's Apollo Pharmacies are examples, to name a few, where manufacturers/service providers combine their own manufactured products and services with those of

others to generate value hitherto unknown. The last mile connect seems to be increasingly lively and experiential. Also, manufacturers and service providers face an exploding rural market yet only marginally tapped due to difficulties in rural retailing. Only innovative concepts and models may survive the test of time and investments.

However, manufacturers and service providers will also increasingly face a host of specialist retailers, who are characterized by use of modern management techniques, backed with seemingly unlimited financial resources. Organized retail appears inevitable. Retailing in India is currently estimated to be a US\$ 200 billion industry, of which organized retailing makes up a paltry 3 percent or US\$ 6.4 billion. By 2010, organized retail is projected to reach US\$ 23 billion. For retail industry in India, things have never looked better and brighter. Challenges to the manufacturers and service providers would abound when market power shifts to organized retail.

### **CHALLENGES IN RETAILING**

The industry is facing a severe shortage of talented professionals, especially at the middle-management level.

Most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding. Long intermediation chains would increase the costs by 15 per cent.

Lack of adequate infrastructure with respect to roads, electricity, cold chains and ports has further led to the impediment of a pan-India network of suppliers. Due to these constraints, retail chains have to resort to multiple vendors for their requirements, thereby, raising costs and prices.

The available talent pool does not back retail sector as the sector has only recently emerged from its nascent phase. Further, retailing is yet to become a preferred career option for most of India's educated class that has chosen sectors like IT, BPO and financial services.

Even though the Government is attempting to implement a uniform value-added tax across states, the system is currently plagued with differential tax rates for various states leading to increased costs and complexities in establishing an effective distribution network.

Stringent labor laws govern the number of hours worked and minimum wages to be paid leading to limited flexibility of operations and employment of part-time employees. Further, multiple clearances are required by the same company for opening new outlets adding to the costs incurred and time taken to expand presence in the country.

The retail sector does not have 'industry' status yet making it difficult for retailers to raise finance from banks to fund their expansion plans.

Government restrictions on the FDI are leading to an absence of foreign players resulting into limited exposure to best practices.

Non-availability of Government land and zonal restrictions has made it difficult to find a good real estate in terms of location and size. Also lack of clear ownership titles and high stamp duty has resulted in disorganized nature of transactions.

### **STRATEGIES, TRENDS AND OPPORTUNITIES**

Retailing in India is gradually inching its way toward becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retail has entered India as

seen in sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof. The Indian retailing sector is at an inflexion point where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth trajectory. The Indian population is witnessing a significant change in its demographics. 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 growth drivers of the organized retail sector in India.

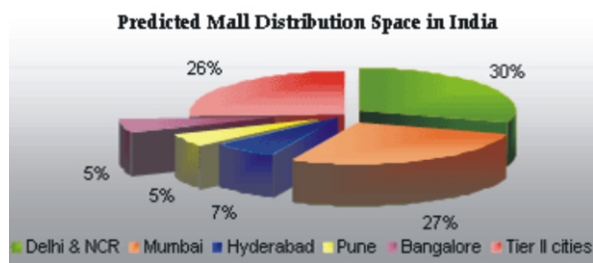
### GROWTH OF RETAIL SECTOR IN INDIA

Retail and real estate are the two booming sectors of India in the present times. And if industry experts are to be believed, the prospects of both the sectors are mutually dependent on each other. Retail, one of India's largest industries, has presently emerged as one of the most dynamic and fast paced industries of our times with several players entering the market. Accounting for over 10 per cent of the country's GDP and around eight per cent of the employment retailing in India is gradually inching its way toward becoming the next boom industry

As the contemporary retail sector in India is reflected in sprawling shopping centers, multiplex malls and huge complexes offer shopping, entertainment and food all under one roof, the concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. This has also contributed to large-scale investments in the real estate sector with major national and global players investing in developing the infrastructure and construction of the retailing business. The trends that

are driving the growth of the retail sector in India are

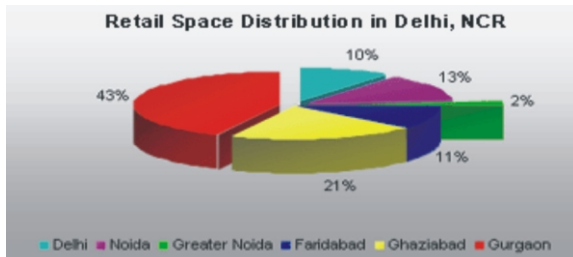
- Low share of organized retailing
- Falling real estate prices
- Increase in disposable income and customer aspiration
- Increase in expenditure for luxury items (CHART)



SOURCE: CII Report/ Retail Scenario in India

Another credible factor in the prospects of the retail sector in India is the increase in the young working population. In India, hefty pay packets, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector. These key factors have been the growth drivers of the organized retail sector in India which now boast of retailing almost all the preferences of life - Apparel & Accessories, Appliances, Electronics, Cosmetics and Toiletries, Home & Office Products, Travel and Leisure and many more. With this the retail sector in India is witnessing rejuvenation as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. The retailing configuration in India is fast developing as shopping malls are increasingly becoming familiar in large cities. When it comes to development of retail space specially the malls, the Tier II cities are no longer behind in the race. If development plans till 2007 is studied it shows the projection of 220 shopping malls, with 139 malls in metros and the remaining 81 in the Tier II cities. The government of states like Delhi and National Capital

Region (NCR) are very upbeat about permitting the use of land for commercial development thus increasing the availability of land for retail space; thus making NCR render to 50% of the malls in India.



SOURCE: CII Report/ Retail Scenario in India

India is being seen as a potential goldmine for retail investors from over the world and latest research has rated India as the top destination for retailers for an attractive emerging retail market. India's vast middle class and its almost untapped retail industry are key attractions for global retail giants wanting to enter newer markets. Even though India has well over 5 million retail outlets, the country sorely lacks anything that can resemble a retailing industry in the modern sense of the term. This presents international retailing specialists with a great opportunity. The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles, burgeoning income and favorable demographic outline.

## REASON FOR THE GROWTH OF RETAIL INDUSTRY

- Existing Indian middle classes with an increased purchasing power
- Rise of upcoming business sectors like the IT & engineering Firms
- Change in the taste and attitude of the Indians
- Effect of globalization

- Heavy influx of FDI in the retail sectors in India
- Big Bazaar Crossword, Ebony Retail Holdings Ltd., Food Bazaar, Globus Stores Pvt. Ltd., Food World Ltd., Pantaloon Retail India Ltd., Shoppers Stop, Titan Industries
- Reliance Retail Ltd
- New entrants like Wal-Mart Stores, Carrefour, Tesco, Boots Group

## RECENT TRENDS

- Retailing in India is witnessing a huge revamping exercise as can be seen in the graph
- India is rated the fifth most attractive emerging retail market: a potential goldmine.
- Estimated to be US\$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 percent or US\$ 6.4 billion
- As per a report by KPMG the annual growth of department stores is estimated at 24%
- Ranked second in a Global Retail Development Index of 30 developing countries drawn up by AT Kearney.
- Multiple drivers leading to a consumption boom:
  - Favorable demographics
  - Growth in income
  - Increasing population of women
  - Raising aspirations: Value added goods sales
  - Food and apparel retailing key drivers of growth
- Organized retailing in India has been largely an urban phenomenon with affluent classes and growing number of double-income households.
- More successful in cities in the south and west of India. Reasons range from differences in consumer buying behavior to cost of real estate and taxation laws.
- Rural markets emerging as a huge opportunity for retailers reflected in the share of the rural market

across most categories of consumption

- ITC is experimenting with retailing through its e-Choupal and Choupal Sagar -rural hypermarkets.
- HLL is using its Project Shakti initiative- leveraging women self-help groups - to explore the rural market.
- Mahamaza is leveraging technology and network marketing concepts to act as
- an aggregator and serve the rural markets.
- IT is a tool that has been used by retailers ranging from Amazon.com to eBay to radically
- change buying behavior across the globe.
- 'E-tailing' slowly making its presence felt.

### RECOMMENDATIONS

- Grant full status to retail
- Permit FDI in Retail in phases
- Invest in supply chain infrastructure
- Ease distribution - infrastructure creation octroi
- Ensure single window clearance for retail chains
- Organize market for real Estate
- Ensure proper rent laws
- Enforce zoning laws and city development plan
- Increase land supply
- Ensure flexibility of labor laws.

### CONCLUSION

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India 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 India Retail Industry is gradually inching its way towards becoming the next boom industry.

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