

# Indian Retail Industry: Opportunities and Challenges

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## Abstract

*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. The India Retail Industry is gradually inching its way towards becoming the next boom industry. India retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. 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. This paper highlights the growth of retail sector in India, strategies, strength and opportunities of retail stores, retail format in India, recent trends, and opportunities and challenges. It 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.*

**Key words:** Retail Industry, unorganized, strategies, strength and opportunities.

## 1. Introduction

Indian retail industry is highly fragmented as compared to the developed as well as the other developing countries. Comprising of organized and unorganized sectors, India retail industry is

one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With growing market demand, the industry is expected to grow at a pace of 25-30% annually. The India retail industry is expected to grow from Rs. 35,000 crore in 2004-05 to Rs. 109,000 crore by the year 2010. Traditionally it was a family's livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99%

retailer's function in less than 500 square feet of shopping space. Global retail consultants KSA Technopak have estimated that organized retailing in India is expected to touch Rs 35,000 crore in the year 2005-06. The Indian retail sector is estimated at around Rs 900,000 crore, of which the organized sector accounts for a mere 2 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer.

Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention

to the brand building process. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself. There is no doubt that the Indian retail scene is booming. A number of large corporate houses —Tata's, Raheja's, Piramals's, Goenka's — have already made their foray into this arena, with beauty and health stores, supermarkets, self-service music stores, new age book stores, every-day-low-price stores, computers and peripherals stores, office equipment stores and home/building construction stores. Today the organized players have attacked every retail category.

## 2. Objectives of the Present Study:

The following objectives have been framed by keeping in view of the relevance of the study in the present situation.

- i. To study the growth and development of retail industry in India.
- ii. To evaluate the opportunities and challenges of retail industry in India.
- iii. To offer appropriate suggestions for the development of retail industry in India.

## 3. Scope of the Retail Industry

Retail is clearly the industry that is poised to show the highest growth in the next five years. The sector is set for a revolution, as both the present players and new entrants are gearing up to explore the market. This sector contributes 10% of India's GDP and the current growth rate is 8.5%. The present size of the organized retailing sector is approximately 3% and is expected to grow to 25-30% by the year 2010. There are about 300 new malls, 1500 supermarkets and 325 departmental stores currently under construction. Many players are coming up with huge investments, due to which the present 12 million mom-and-pop shops and kirana stores fear losing their business. Most predictions say that the sector might reach to US\$ 400-600 billion by the year 2010. Global retail giants such as Wal-Mart, Tesco, Germany's Metro AG and many others are ready to enter the retail markets. The rising demand of branded products

and increase in purchasing power has lured these companies to enter the market.

## 4. Retailing: Present Scenario

Retailing in India is witness to the boom in terms of modern retailing formats, shopping malls etc. the future of retailing for any product across the country will definitely be in malls where the consumer can get variety, quality and ambience. However, in spite of this continuous debate to be or not to be, recently Government has allowed up to 51 percent FDI in single brand retailing by foreign companies like Reebok and Louis Vuiton. As of now, single brand retailers operate through the franchisee route and there is a strong view that FDI in this segment would not displace jobs or impact the local industry but help create employment. Even today the government is undecided about the level FDI in retail, but a number of foreign players, including the Wal-mart stores, Inc., have announced their intention to enter India in a big way. At present Wal-mart is operating through its subsidiary in Bangalore, which was functioning as a liaison office till last year. Now it is in the process of setting up offices in New Delhi and Mumbai.

## 5. Size of the Indian Retail Industry

In 2009, the total Indian retail industry was valued at Rs 13,300 billion (estimate), and the organised segment constituted 5.9% of the value at Rs 783 billion. In the segment, the clothing and accessories sales had a majority share of 38.1% followed by the food and grocery segment at 11.5% and electronics segment at 9.1%. The organised retail industry grew at a CAGR of 33% during 2004-2009. Even though the organised retail segment has a minuscule share in the total industry, it has enormous potential considering the rising urbanization, the efficient supply-chain, the readily-available

**Table-01****Indian Retail Market (at current market prices)**

Segments	Total retail market (Rs billion)			Organised retail market (Rs billion)		
	2008	2009	Share in 2009	2008	2009	Share in 2009
Clothing & accessories	1135	1313	9.5%	214	298	38.1%
Food & grocery	7439	7920	62.0%	58	90	11.5%
Footwear	137.5	160	1.1%	52	77.5	9.9%
Electronics	481	575	4.0%	50	71	9.1%
Catering services	570	713	4.8%	39.4	57	7.3%
Home & office improvement	406.5	455	3.4%	37	50	6.4%
Telecom	216.5	272	1.8%	17.4	27	3.4%
Entertainment	380	456	3.2%	15.6	24	3.1%
Jewellery	602	694	5.0%	16.8	23	2.9%
Books, music & gifts	133	164	1.1%	16.8	22	2.8%
Watches	39.5	44	0.3%	18	21.5	2.7%
Pharmaceuticals	422	488	3.5%	11	15.4	2.0%
Beauty and wellness	38	46	0.3%	4	6.6	0.8%
Total	12000	13,300		550	783	

Source: Images India Retail Report

## 6. Global Retail Scenario

Retailing has played a major role in the global economy. In developed markets, retailing is one of the most prominent industries. In 2009, the US

retail sector contributed 31% to the GDP at current market prices. In developed economies, organized retail has a 75-80% share in total retail as compared with developing economies, where un-organized retail has a dominant share.

**Table-02****Leading global retail players by revenue**

Company name	Country	Banner sales 2009 (US \$ Million)	No. of outlets, 2009
Wal-Mart stores	US	395,303	7331
Carrefour	France	142229	13419
Tesco	UK	103573	3750
Metro group	Germany	102942	2541
Seven&1	Japan	84375	22590
Kroger	US	73633	3672
AEON(i)	Japan	73416	14803
Target	US	71125	1591
Schwarz group	Germany	70969	8575
Costco	US	69704	518

Source: Planet Retail

Global retail sales was estimated to be around US\$ 12 trillion in 2008; however, in 2009, the slowdown in the global economy, especially in the US, and credit crunch, decreased consumer spending. On a global level, the economy performed robustly till 2008, but the US crisis spread over to Europe in early 2009, and its impact was felt in the Asia-Pacific region by mid-2009.

India has the highest number of retail outlets in the world at over 13 million retail outlets, and the average size of one store is 50-100 square feet. It also has the highest number of outlets (11,903) per million inhabitants. The per capita retail space in India is among the lowest in the world, though the per capita retail store is the highest. Majority of these stores are located in rural areas.

**Table-03**

**Total number of retail outlets in select countries (in '000)**

Country	2004	2005	2006	2007	2008	2009
India	11689	12049	12408	12770	13122	13448
China	5463	5208	4854	4635	4503	4496
Brazil	976	1006	1071	1122	1157	1188
Russia	437	447	456	466	475	480
USA	923	923	934	945	946	946
UK	314	312	308	302	298	295
France	416	411	409	407	406	406
Germany	288	286	284	283	281	281

Source: Euro monitor

Though the data on volume of turnover by retail is not separately maintained, commodity composition of private consumption expenditure provides reasonable estimates of the size of the retail sector. As per the National accounts, private final consumption expenditure, increased from Rs. 19,26,858 crore in 2004-05 to Rs. 32,26,826 crore in 2008-09, at an average rate of 13.8 per cent per annum<sup>2</sup>. However, expenditure on some items like transport and communication; expenditure on food in hotels and restaurants; expenditure on rent, fuel and power; and expenditure on education and recreation are distinct from trade. Private consumption expenditure adjusted for items which could be considered a close approximation to trade, increased from Rs. 11,92,405 crore in 2004-05 to Rs. 19,93,380 crore in 2008-09, at an average rate of 13.7 per cent<sup>3</sup>. Rate of growth of GDP at current market prices during this period at 14.5 per cent, was higher than this growth.

**Table-04**

**Private Final Consumption Expenditure-commodity Composition (Rs. in crore)**

	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09
-	763,345	852,798	947,856	1,070,794	1,182,211
Clothing & Footwear	127,608	150,633	188,276	202,797	213,344
Rent, Fuel and Power	250,986	277,310	311,915	356,197	415,436
Furniture and Appliances	64,944	76,458	93,401	111,536	121,984
Medical Care	95,560	105,244	115,900	127,648	140,584
Transport and Communication	378,217	418,363	477,521	521,858	608,048



Recreation, Education and Culture	65,327	73,348	82,778	97,962	110,954
Miscellaneous Goods and Services	180,871	204,195	259,562	336,564	434,265
Total Private Consumption Expenditure	1,926,858	2,158,349	2,477,209	2,825,356	3,226,826
Estimated Trade Sales	1,192,045	1,339,646	1,538,827	1,771,252	1,993,380

1 Quick Estimates of National Income, 2008-09, Central Statistical Organization

2 Estimates of Retail Trade by ICRIER at Rs. 11,308 billion in 2004-05 are close to these estimates

When seen at constant 2004-05 prices, however, private final consumption expenditure increased from Rs. 19,26,858 crore in 2004-05 to Rs. 26,51,786 crore in 2008-09, at an average rate of 8.3 per cent per annum. Private consumption expenditure adjusted for items like transport and communication etc, increased from Rs. 11,92,045 crore in 2004-05 to Rs. 16,67,286 crore in 2008-09, at an average rate of 8.8 per cent. Rate of growth of GDP at constant market prices during this period at 8.4 per cent was lower than the growth of private consumption expenditure that could be attributed to trade. The National Accounts do not provide disaggregated data of retail turnover originating from the organized or unorganized sector.

### Growth of Retail Sector in India

An increasing number of people in India are turning to the services sector for employment due to the relative low compensation offered by the traditional agriculture and manufacturing sectors. The organized retail market is growing at 35 percent annually while growth of unorganized retail sector is pegged at 6 percent. The Retail Business in India is currently at the point of inflection. Rapid change with investments to the tune of US \$ 25 billion is being planned by several Indian and multinational companies in the next 5 years. It is a huge industry in terms of size and according to management consulting firm Technopak Advisors Pvt. Ltd., it is valued at about US \$ 350 billion. Organized retail is expected to garner about 16-18 percent of the total retail

market (US \$ 65-75 billion) in the next 5 years. India has topped the A.T. Kearney's annual Global Retail Development Index (GRDI) for the third consecutive year, maintaining its position as the most attractive market for retail investment. The Indian economy has registered a growth of 8% for 2007. The predictions for 2008 are 7.9%. The enormous growth of the retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace and by 2010, 300 malls are estimated to be operational in the country. With over 1,000 hypermarkets and 3,000 supermarkets projected to come up by 2011, India will need additional retail space of 700,000,000 sq ft (65,000,000 m<sup>2</sup>) as compared to today. Current projections on construction point to a supply of just 200,000,000 sq ft (19,000,000 m<sup>2</sup>), leaving a gap of 500,000,000 sq ft (46,000,000 m<sup>2</sup>) that needs to be filled, at a cost of US\$15-18 billion.

According to the ICRIER report, the retail business in India is estimated to grow at 13% from \$322 billion in 2006-07 to \$590 billion in 2011-12. The unorganized retail sector is expected to grow at about 10% per annum with sales expected to rise from \$ 309 billion in 2006-07 to \$ 496 billion in 2011-12.

### 7. Key Players in Indian Retail Sector

AV Birla Group has a strong presence in apparel retail and owns renowned brands like Allen Solly, Louis Phillipe, Trouser Town, Van Heusen and Peter England. The company has

investment plans to the tune of Rs 8000 – 9000 crores till 2010.

**Trent** is a subsidiary of the Tata group; it operates lifestyle retail chain, book and music retail chain, consumer electronic chain etc. Westside, the lifestyle retail chain registered a turnover of Rs 3.58 mn in 2006.

**Landmark Group** invested Rs. 300 crores to expand Max chain, and Rs 100 crores on Citymax 3 star hotel chain. Lifestyle International is their international brand business.

**K Raheja Corp Group** has a turnover of Rs 6.75 billion which is expected to cross US\$100 million mark by 2010. Segments include books, music and gifts, apparel, entertainment etc.

**Reliance** has more than 300 Reliance Fresh stores; they have multiple formats and their sale is expected to be Rs 90,000 crores (\$20 billion) by 2009-10.

**Pantaloon Retail** has 450 stores across the country and revenue of over Rs. 20 billion and is expected to touch 30 million by 2010. Segments include Food & grocery, e-tailing, home solutions, consumer electronics, entertainment, shoes, books, music & gifts, health & beauty care services.

## 8. Retail in India - The Future

According to a study the size of the Indian Retail market is currently estimated at Rs.704 crores, which accounts for a meager 3% of the total retail market. As the market becomes more and more organized the Indian retail industry will gain greater worth. The Retail sector in the small towns and cities will increase by 50% to 60% pertaining to easy and inexpensive availability of land and demand among consumers. Growth in India Real estate sector is also complementing the Retail sector and thus it becomes a strong feature for the future trend. Over a period of next 4 years there will be a retail space demand of 40 million sq. ft. However with growing real estate sector space constraint will not be there to meet this demand. The growth in the retail sector is also caused by the development of retail specific

properties like malls and multiplexes.

According to a report, from the year 2003 to 2008 the retail sales are growing at a rate of 8.3% per annum. With this the organized retail which currently has only 3% of the total market share will acquire 15%-20% of the market share by the year 2010.

Factors that are playing a role in fuelling the bright future of the Indian Retail are as follows:

- i. The income of an average Indian is increasing and thus there is a proportional increase in the purchasing power.
- ii. The infrastructure is improving greatly in all regions is benefiting the market.
- iii. Indian economy and its policies are also becoming more and more liberal making way for a wide range of companies to enter Indian market.
- iv. Indian population has learnt to become a good consumer and all national and international brands are benefiting with this new awareness.
- v. Another great factor is the internet revolution, which is allowing foreign brands to understand Indian consumers and influence them before entering the market. Due to the reach of media in the remotest of the markets, consumers are now aware of the global products and it helps brands to build themselves faster in a new region.

## 9. Opportunities and Challenges in Retail Industry

### 9.1 Opportunities

In the 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 Wal-Mart, Carrefour, Tesco and Casino would take advantage of the more favorable 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.

- i. 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.
- ii. The retail industry in India, according to experts, will be a major employment generator in the future. Currently, the market share of organized modern retail is just over 4 per cent of the total retail industry, thereby leaving a huge untapped opportunity.
- iii. 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.
- iv. Of the total organized 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 organized retail segment in the country.
- v. 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.
- vi. Commanding such a large chunk of the organized retail business in India, fashion retailing has indeed been responsible for single-handedly driving the business of retail in India.

## 9.2 Challenges in Retailing

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

- iii. 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.
- iv. 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.
- v. 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.
- vi. 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.
- vii. The retail sector does not have 'industry' status yet making it difficult for retailers to raise finance from banks to fund their expansion plans.
- viii. Government restrictions on the FDI are leading to an absence of foreign players resulting into limited exposure to best practices.
- ix. 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.

## 10. 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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