

The Changing Face of Indian Retail Industry in Present Era and Its' Future Prospects

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ABSTRACT

The face of retailing which we see today is the result of revolution in retailing industry which has brought many changes and also opened door for many Indian as well as foreign players. But it is also one the bitter truth that all of them have not yet tasted success because of the heavy initial investment that are required to break even with other companies and compete with them. Moreover India is the country having the most unorganized retail market that's why in a market like India there is a constant clash between challenges and opportunities. Apart from that India's huge middle class base and its untapped retail industry are the key attraction for global retail giants planning to enter into newer markets. As per the report of Boston Consulting Group and Retailers Association of India, India's retail market is expected to double to US\$ 1 trillion by 2020 from US\$ 600 billion in 2015 driven by income growth, urbanization and attitudinal shifts, highlighted . This paper will discuss about the present strategies, strength and opportunities of retail sector and through light on the challenges faces by the retailing industry in present era.

Key words- Indian Retail Sector, Growth, Challenges, Strategies, untapped retail industry

INTRODUCTION

Retailing in India is still in its infancy. But the fact is that 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. 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. According to an estimate the unorganized retail sector has 97% presence whereas the organized accounts for merely 3% . 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 steps into a store. In the name of retailing, the unorganized retailing has dominated the Indian landscape so far. According to an estimate the unorganized retail sector has 97% presence whereas the organized accounts for merely 3%. Industry has already predicted a trillion dollar market in retail sector in India by 2010. However, the retail industry in India is undergoing a major shake-up as the country is witnessing a retail revolution. The old traditional formats are slowly changing into more complex and bigger formats. Govt of India's plan of changing the FDI guidelines in this sector speaks of the importance attached to retailing. Recently moves by big corporate houses like Reliance Industries has further fuelled the major investments in retail sector. A strategic alliance, land acquisitions in prime areas give the essence of the mood in this sector.

THE INDIAN RETAIL SECTOR

India is a country which is having the most unorganized retail market. As in India 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 185,000 crore in the year 2014-15. India is the 5th largest retail market in the world. The country ranks fourth among the surveyed 30 countries in terms of global retail development. The current market size of Indian retail industry is about US\$ 520 bn (Source: IBEF). Retail growth of 14% to 15% per year is expected through 2015. By 2018, the Indian retail sector is likely to grow at a CAGR of 13% to reach a size of US\$ 950 bn. Retailing has played a major role the world over in increasing productivity across a wide range of consumer goods and services. In the developed countries, the organized retail industry accounts for almost 80% of the total retail trade. In contrast, in India organized retail trade accounts for merely 8-10% of the total retail trade. This highlights a lot of scope for further penetration of organized retail in India.

The Indian retail scene has witnessed too many players in too short a time, crowding several categories without looking at their core competencies or having a well thought out branding strategy. There seems to be a considerable potential for the entry or expansion of specialized retail chains in the country. The Indian durable goods sector has seen the entry of a large number of foreign companies during the post liberalization period. A greater variety of consumer electronic items and household appliances became available to the Indian customer. There are specialized retailers for each category of products (books, music products, etc.) in this sector. Another prominent feature of this sector is popularity of franchising agreements between established manufacturers and retailers. A strong impetus to the growth of retail industry is witnessed by economic boom and driver of key trends in urban as well as rural India.

If we look into the growth rate of super market sales, it has been significantly increased in recent years because greater numbers of higher income Indians prefer to shop at super markets due to higher standards of hygiene and attractive ambience. More over with initial growth in income levels, Indians have started spending more on health and beauty products. Here also small, single-outlet retailers dominate the market. In recent years, a few retail chains specialized products have come into the market. Although these retail chains account for only a small share of the total market, their business is expected to grow significantly in the future due to the growing quality consciousness of buyers for these products. Numerous clothing and footwear shops in shopping centers and markets operate all over India. Traditional outlets stock a limited range of cheap and popular items; in contrast, modern clothing and footwear stores have modern products and attractive displays to lure customers. With rapid urbanization, and changing patterns of consumer tastes and preferences, it is unlikely that the traditional outlets will survive the test of time. Despite the large size of this market, very few large and modern retailers have established specialized stores for products.

The Hidden Challenges

With so many growth prospects in it in coming years the Indian retail industry is not an exception for the various industrial challenges. Following are the unavoidable challenges for the industry in long run

- Modern retailing is all about directly having "first hand experience" with customers, giving them such a satiable experience that they would like to enjoy again and again. Providing great experience to customers can easily be said than done. Thus challenges like retail differentiation, merchandising mix, supply chain management and competition from supplier's brands are the talk of the day. In India, as we are moving to the next phase of retail development, each endeavor to offer experiential shopping. One of the key observations by customers is that it is very difficult to find the uniqueness of retail stores.

- The next problem in setting up organized retail operations is that of supply chain logistics. India lacks a strong supply chain when compared to Europe or the USA. The existing supply chain has too many intermediaries: Typical supply chain looks like:- Manufacturer - National distributor - Regional distributor - Local wholesaler - Retailer - Consumer. This implies that global retail chains will have to build a supply chain network from scratch. This might run foul with the existing supply chain operators. In addition to fragmented supply chain, the trucking and transportation system is antiquated. The concept of container trucks, automated warehousing is yet to take root in India. The result: significant losses/damages during shipping.
- Merchandising planning is one of the biggest challenges that any multi store retailer faces. Getting the right mix of product, which is store specific across organization, is a combination of customer insight, allocation and assortment techniques.
- The private label will continue to compete with brand leaders. So supplier's brand will take their own way because they have a established brand image from last decades and the reasons can be attributed to better customer experience, value vs. price, aspiration, innovation, accessibility of supplier's brand.
- Inflation is also an important concern area. Persistent high inflation and inflation expectations meant that the RBI was compelled to maintain the benchmark interest rates at a much higher level than what would be needed to encourage business and economic sentiment. In the recent quarters consumer sentiment has been varied-with apparel retailers reporting an improving trend but most other retail formats still witnessing muted off take.

Future Prospects for Indian retail industry

Retail industry has been on a growth trajectory over the past few years. The industry is expected to be worth US\$ 1.3 trillion by 2020. Of this, organized retail is expected to grow at a rate of 25% p.a. A significant new trend emerging in retail sector is the increase in sales during discount seasons. It has been observed of late that sales numbers in discount seasons are significantly higher than at other times. This is prompting retailers to start discounts earlier and have longer than usual sale season. Also, concepts such as online retailing and direct selling are becoming increasingly popular in India thereby boosting growth of retail sector.

Another crucial structural change is expected to come in the form of implementation of FDI in multi-brand retail. The industry players are strongly in favour of entry of foreign retailers into the country. This will help them in funding their operations and expansion plans. The expertise and experience brought in by the foreign retailers will also improve the way the Indian retailers operate. It is expected to bring in more efficiency in the supply chain functions of retailers.

However, fear of loss of business for kiranaawalas is still a cause of concern and is posing hurdles in FDI implementation across country. Ironically, even though it has been some time since the government opened the door for FDI in multi-brand retail, international retailers have not yet shown wholehearted interest in coming to India yet. Hurdles such as requirement of clearance from individual states, mandate of 30% local outsourcing of materials from micro and small enterprises are keeping the investors away from India.

Retail is mainly a volume game, (especially value retailing). Going forward, with the competition intensifying and the costs scaling up, the players who are able to cater to the needs of the consumers and grow volumes by ensuring footfalls will have a competitive advantage. At the same time competition, high real estate cost, scarcity of skilled manpower and lack of infrastructure are some of the hurdles yet to be tackled fully by retailers.

Luxury retailing is gaining importance in India. This includes fragrances, gourmet retailing, accessories, and jewellery among many others. The Indian consumer is ready to splurge on luxury items and is increasingly doing so. The Indian luxury market is expected to grow at a rate of 25% per annum. This will make India the 12th largest luxury retail market in the world.

Rural retailing is another area of prime focus for many retailers. Rural India accounts for 2/5th of the total consumption in India. Thus, the industry players do not want to be left out and are devising strategies especially for the rural consumer. However, players should be ready to face some imminent challenges in rural area. For instance, competition from local mom and pop stores as they sell on credit, logistics hurdles due to bad infrastructure in rural areas, higher inventory expenses and different buying preferences amongst rural population.

How India Could Change Retail Marketing As We Know It

E-RETAILING

The increasing internet penetration has made e-business a huge potential in developing countries like India. With rapid growth of the Internet and globalization of market, the retail sector has become an increasingly competitive and dynamic business environment. E-retailing refers to the selling of retail goods electronically over the Internet. It usually refers to the Business to- Consumer (B2C) transactions and is the largest marketing activity in the rapidly growing field of Electronic commerce. E-retailing offers the consumers huge amounts of information in the form of websites with useful links to similar sites that allows consumers to compare products by looking at individual items. The Internet shopping fulfils several consumer needs more effectively and efficiently than conventional shopping. The number of consumers is buying online and the amount being spent by online buyer's has been on the rise.

PROMOTION

Retail promotions are pervasive as a means to stimulate or shape consumer demand. Information sharing in the supply chain promotional decisions and their promotions take several forms, including price discounts, store displays, or advertising features. Promotion helps to make potential customers aware of the many choices available regarding products and services. Typically, this task can be accomplished through print and broadcast advertising, direct mail, sales promotion, public relations and personal selling. Although each tool has its own unique communication capability in promoting the firms, their products and the services they offer, not all of them would be perceived as equally important. The best way to understand promotion is through the concept of marketing communication process. Promotion is the company strategy to cater for marketing communication process that requires interaction between two or more people or groups, encompassing senders, messages, media and receivers. The growing expense involved in promotion plus their relatively limited financial resources and managerial expertise prohibit many businesses especially the small businesses, from utilizing some of the promotion tools. The lack of financial resources might lead some researchers to question whether a strategic approach to promotion management is feasible and appropriate for small independent retailers. A critical research question here is whether small independent retailers do or do not use a strategic approach to promotion management.

A strategic group refers to a group of firms following similar retail strategy, but dissimilar between groups. To obtain the various strategic groups, the retail strategy data were first factor analyzed and then cluster analyzed. The retail strategy data include items relating to the degree of emphasis the retailers place on: prestige pricing, price discounting, customer service, store appearance, convenience of store location, large number of product lines, and assortment within a product line. Four strategic groups were identified, with each group significant on an ANOVA across all the clusters. The four strategic groups are low price moderate service, high price excellent service, medium price high service, and unfocused. As the unfocused group is unlikely to generate a laudable result, separate result will not be analyzed for this group.

LOW PRICE MEDIUM SERVICE

Low price medium service retailers are cost sensitive. These retailers are more inclined towards keeping a close watch on their marketing expenses. As low price retailers, they are less willing to engage paid media to communicate their merchandise and services. Instead, they seek the apparently less expensive in-store promotion tools. In-store promotions are economical devices that inform the consumers about the retail store's offerings at point-of-sale. Given the relatively good range of accepted merchandise the Low price medium service group carries within each store, catching the consumers' eyes with point-of-sale displays are increasingly vital.

HIGH PRICE EXCELLENT SERVICE

This is a group where the retailers offer narrow product range or quality merchandise or both. In addition, this HPES group of retailers usually bases its reputation on customer service and high status image rather than on price. Based on these features, the HPES retailers seek promotion tools that communicate their high status image. In other words, the HPES retailers prefer to build and protect consumer franchises. The research findings indicate that this group of retailers significantly and positively gives more priority to print advertising (Fam and Merilee's, 1996a). When a retail store places more emphasis on customer service and image, it needs quality media to project that image. Quality newspapers and magazines have been proven as image builder. The image generated by a high level of editorial content and color reproduction especially for magazines, often transfer to the advertised products.

MEDIUM PRICE HIGH SERVICE (MPHS)

The MPHS strategic group is a distinct group in its own right. Normally, this group of retailers emphasizes national brands, mass markets and excitement/flamboyant in-store shopping experience. Based on this strategic approach, the MPHS retailers could seek price-related promotion tools for creating an exciting atmosphere for shopping. The research results indicate that there are positive and significant relationships between MPHS and both price markdowns/in store promotions, and sales promotion (Fam and Merilee's, 1996a). Excitement comes from in store promotions such as in-store promotions. Competitions, contests or sweepstakes add to the fun and potential rewards.

PROMOTION BUDGET SIZE (BS)

The strategic approach of firms with a larger promotion budget size could differ from those with a smaller budget size. A larger promotion budget size normally accords the retailers greater flexibility and diversity in promotion choices. For instance, the retailers with a larger budget size are more likely to pursue long term growth through widening the consumer reach area or increasing the store/ brand awareness level. In contrast, smaller promotion budget size could encourage the retailers to focus on short-term gains. The findings suggested that the retailers with a larger promotion budget size have a higher preference for direct mail and other mass media that are ideal for long-term growth. In contrast, the same group of retailers tended to show a lower preference for the short-term sales stimuli such as sales promotion and price markdowns/in-store promotions (Fam and Merilee's, 1996a).

CONCLUSION

From the above study it is clear that for getting the proper shape the Indian retail sector is adopting various strategies which result in the changing face of the industry. Here we can see that the business retail product strategy can greatly influence how much the business brings in and how consumers view the company. Strategies which are being followed can have multiple facets, including marketing, product development and pricing. Each phase has an effect on consumer perception and largely determines whether or not consumers purchase company's products. Price is the exchange value of a good or service. Pricing strategy has become one

of the most important features of modern marketing. A marketer that selects a competitive pricing strategy is attempting to use non price competition. Place in retail stores includes more than the issue of how consumers access the retail stores, it also includes the availability of products in such stores. Promotion is the lifeblood of any retail organization for competing effectively with the competitors Marketing must be replaced with a more customized approach by using sophisticated technology. For better prospects of this industry, as a whole, both organized and unorganized retail companies should work together to improve the overall retail industry, while generating new benefits for their own customers.

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