

Organized Retail Market Boom and the Indian Society

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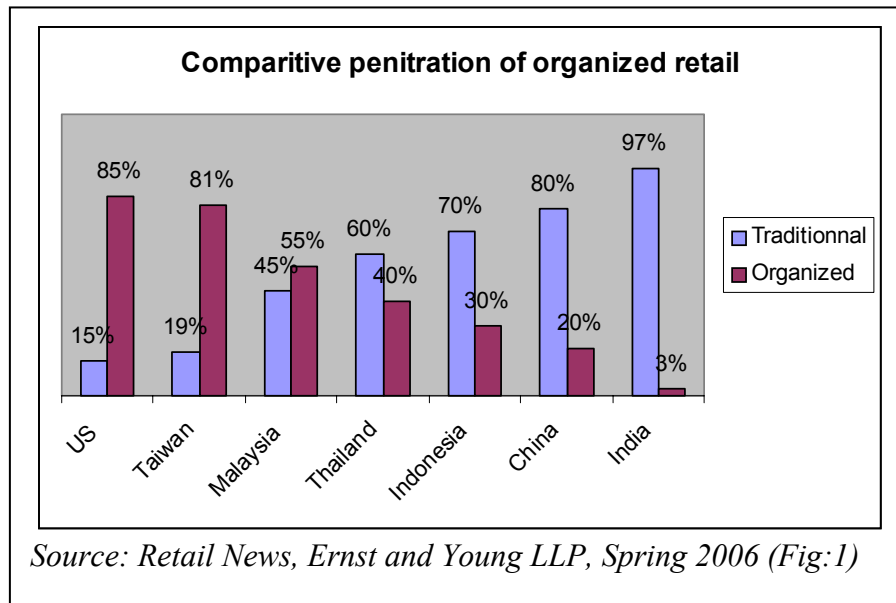
Abstract

IT and related services played a major role for India's current 9.2. GDP growth. Organized retailing in India is one more example for its open economy. The IT industries were able to develop a demand for Indian talents all over the world and improved their living standards. It directly impacts only a small minority of Indian population while organized retail affects every single Indian and every sector of Indian society. The paper gives a glimpse of the slow evolution of retail market over the years in India and its contribution for economic growth. The likely positive impact of this revolution in different sectors is enumerated. Paper addresses its ability to manipulate consumption pattern of society, increased customer satisfaction and likely change in the market shares of the different types of sellers. Paper discusses its flip sides like increasing social tension among families below poverty line and greater loss of self employment opportunities by this revolution. The main theme of enquiry of this paper is what it all means for the Indian society.

Keywords: Customer satisfaction, Career opportunities, Tourism, Unification, Labor problems, Economic growth, Agribusiness, Infrastructure and traffic facilities.

Introduction

India has the highest shop density in the world and the present retail market in India is estimated to be US\$ 200 billion of which only 3% (around US\$ 64 billion) is in the organized Sector. This organized retail sector is poised for a take off. India is ranked second in the global retail development index out of 30 by AT Kearney. Figure 1 shows the comparative penetration of organized retail in India. With the organized retail segment growing at the rate of 25-30 per cent per annum, revenues from the sector are expected to triple from the current US\$ 7.7 billion to US\$ 24 billion by 2010. The share of modern retail is likely to grow from its current 3 per cent to 15-20 percent over the next decade. 85 per cent of organized retailing is taking place in India's urban areas while 66 per cent of it taking place in India's 6 main cities alone. The growth is much faster in south India than in northern states. The total retail market in south India is \$94 billion and of this organized retail is \$8.5 billion. In southern part of India the organized retail market growth is estimated as 35 per cent per annum. In Chennai the growth rate is 12 percent while in Hyderabad it is 7 percent and in Kerala it is 3-4 per cent per annum. As per Technopark study the sales in the organized sector for food, beverage and tobacco is \$195



billion which cover 65 per cent. Sale of personal care product is \$15 billion (5 per cent) and apparel at 7 percent around \$21 billion. In coming years Co-brands labels will be more in these products. The paper explores the evolution of this sector of economy. The main theme of enquiry of this paper is what it all means for the Indian society.

Evolution of Retail Market in India.

In the beginning there were only kirana stores called Mom and Pop Stores, the Friendly neighbourhood stores selling every day needs. In the 1980s manufacturer's retail chains like DCM, Gwalior Suitings, Bombay Dying, Calico, Titan etc started making its appearance in metros and small towns. Multi brand retailers came into the picture in the 1990s. In the food and FMCG sectors retailers like Food world, Subhiksha, Nilgris are some of the examples. In music segment Planet M, Music world and in books Crossword and Fountainhead are some others. Shopping Centres began to be established from 1995 onwards. A unique example was the establishment of margin free markets in Kerala. The millennium year saw the emergence of super markets and hyper markets. Now big players like Reliance, Bharti, Tatas, HLL, ITC are entering into the organized retail segment. The big international retail bigwigs are waiting in the wings as the present FDI guidelines do not allow them to own retail outlets in the country. Walmart is testing the waters by agreeing to provide back end and logistic support to Bharti for establishment of retail chains with a view to study the market for future entry when the FDI guidelines change and to establish a backbone supply chain. Table 1 shows the different phases in the growth of organized retailing in India.

Table : 1. Journey of Organized Retail in India		
Year	Growth	Function
2000	First Phase	Entry, Growth, Expansion, Top line focus
2005	Second Phase	Range, Portfolio, Former options
2008	Third Phase	End to end supply chain management, Backend operation, Technology, Process
2011	Fourth Phase	M&A, Shakeout, Consolidation, High investment
Source : Ernst & Young		

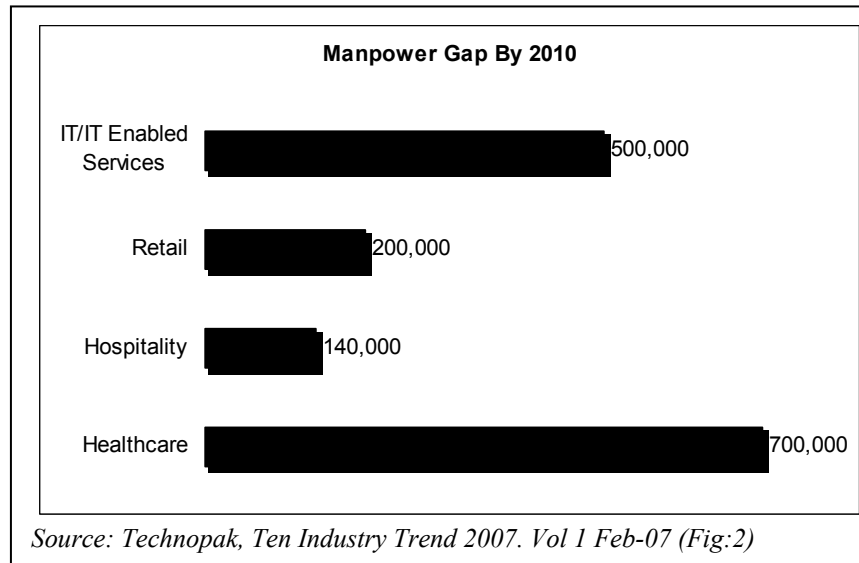
The drivers for the impending retail boom or 'R' revolution are many. The increasing purchasing power of the Great Indian Middle Class is the major reason for retail rush that is being witnessed. Fueling this fact is the changing demography of the Indian populace. The percentage of young people in the country is increasing. It portends well for the retail business as it is the young people who buy more than the old. Again the percentage of women in the population is showing an increasing trend. This again is good news for the retail market as women are more avid shoppers compared to menfolk. The spread of the visual media is contributing its might in spreading visibility of various consumer goods to the public which heighten their aspirations to consume more and to shop in more congenial and luxurious environment. The increasing number of double income family who have more disposable income is another contributing factor for this phenomenon.

Enumerating some of the likely positive outcomes.

Organized retail market boom is expected to create the much needed mass employment. It will upgrade India's layer second and third tier cities to international standard. While this boom addresses India's basic infrastructure challenges it promises to create demand for the product of rural India and a more efficient agricultural sector. The organized retail market boom is expected to bring positive outcomes in many of sectors like economic growth, exports, education, IT industry, food processing, infrastructure and traffic, banking, tourism, agribusiness management along with the greater customer satisfaction. Some of these positive outcomes

- Development of world class retail shops is likely to gives direct employment to many professionals like real estate dealers, builders, architects, display designers, retail shop managers and workers like sales persons, security etc. Figure 2 shows the man power gap by

2010. According to CII the retail sector can absorb 9.0 lakh people over the next five years. Some of the activities like packing is likely to be outsourced from in and around the vicinity of the establishment. One million people will be employed by this retail sector and 3.2 million will be required by 2008-09. The local community is likely to benefit from employment opportunity so generated. The employees have the opportunity of getting pension, other employee benefits and union membership under this organized sector.



- Small business can spring up around such mega retail outlets giving service to a large number of shoppers visiting the malls.
- The organized retail market boom is expected to become one of the pillars to Indian economy as are oil and gold for Middle East. Indian exports will get a boost when the big showrooms source Indian goods from small businesses for their international outlets and it will help us to find the market for the products from rural India.
- Products from rural market and from small units will get private brand equity and market all over the world since retail majors for their successful in sourcing cost-effective goods for supply through their retail outlets will be depending more on the unorganized manufacturing sectors and small units. Most of the working groups in these house based workers are women and children. Artisans and household providers of goods and services will be roped into the supply chain by enhancing their skills to bring about quality consciousness and increase their real time incomes. Removing the middle operators these working groups will be getting better remunerations and the living standards of these women laborers will surely improve.
- Think of the increase in transport required for providing goods and services for the retail outlets. This boom will eliminate the absence of cold-storage infrastructure problem of our farmers and help them to get the product to market place in time. The supply chain can again provide opportunities for a host of manufacturing, trading, and services. Air, road and rail transport is going to benefit from this. Numbers of domestic airlines is now increasing their cargo services considerably to meet the requirements of this sector
- The big book stalls in these hypermarkets become a blessing to voracious readers and researchers. It offers considerable discount and variety of books to all age of people, that now small magazine hats fail to offer.
- Managing inventories is one of the important asset of the big retailers. The best practices available in the world in this field would come into the country with the coming of players like Wal-Mart in the logistics of retail marketing.

- India is the fastest growing mobile market in the world. These showrooms will become major hubs for this electronic industry. Organized retail showrooms give the consumers wide range of electronics goods ranging from robots to imported toys.
- The air conditioning and refrigeration industry is likely to get a big boost. Commercial air-conditioning is likely to overtake the domestic market with the coming of this boom. The refrigerated containers required to transport perishables to various retail outlets would be enormous. The production of consumer durable goods is expected to increase by this organized retail sector. There are many other sectors which are likely to be affected directly or indirectly by this boom. Table 2 shows the growth of consumer durable goods.

Month and Year	Pressure cooker Nos	Washing Machine no	Air Conditioners	Refrigerators '000 Nos	Electric fans Lacks Nos	TV Receivers '000 Nos	Wrist Watch '000 Nos
July 06	316264	183334	26326	415.9	9.1	526.3	895.0
Sep 06	352749	254100	26866	511.6	8.6	550.9	1177.0
Nov 06	331969	190208	21528	405.1	8.8	366.6	1144.0
	Apr-Nov	Apr-Nov	Apr-Nov	Apr-Nov	Apr-Nov	Apr-Nov	Apr-Nov
05-06	2771419	1185271	345671	32667	67.2	4093.2	11389.0
06-07	2497769	1393740	306713	4082.1	73.2	4380.6	9318.0
	Apr-Mar	Apr-Mar	Apr-Mar	Apr-Mar	Apr-Mar	Apr-Mar	Apr-Mar
05-06	4144194	1756626	515485	5158.7	107.4	6059.8	17964.0

Source: Monthly Review of Indian Economy, Centre for Monitoring Indian Economy, Feb 2007

- Consumers would be the group which benefits the most. They would get wider choices of products and cheaper prices. This will increase consumption rate and will indirectly generate more employment and wealth. The local retailers will start offering better discounts that other foreign retail giants could not cope. Time saving online shopping, home delivery through web portal and ability for better comparison of products will increase customer satisfaction.
- Education is considered as the most happening sector in India. While retail giants entering in to the fray there are many opportunities opening up in the educational sector. Retailers like Reliance itself now hire around 60-70 percent of its front end staff from government school pass outs. Pantaloon hires 300 school pass outs from both government and private. 1-1.5 million trained people are expected by 2008 for organized retail sector. To face this expected talent shortage higher educational institutions starts introducing new courses. Retail career area includes store operation, supply chain management, human resource management, entrepreneurship, IT, sales etc. The management schools like NMIMS, IIMs start offering courses with specialization in this field. Number of e-learning portals start provides online courses for retail in India. Foreign Institutional Investors and corporate like Lifestyle tie up with Indian institutes like National Institute of Fashion Technology (NIFT) to start both short and long tem course for fashion retail management and retail supply chain management. This tie up will slowly shift in to other education fields also offering high quality foreign education in Indian soil. The great demand for those qualified students surely attract more and more youngsters and managers to this attractive courses and more and more public and private institutions start offering variety of courses in this field. The non organized market sectors hiring these qualified professionals will also have change in their methodology for quality of services, supply chain management, store organization, financial management and product appreciation.
- Growing organized food retailing in India will bring significant change in the agribusiness management. The supermarket and fresh food outlet showrooms will directly procure product from the farmers. They will be offering better seeds and fertilizers to these farmers. The government subsidiaries to fertilizers will reach directly to farmers instead of factory owners. This strategy will surely influence the quality of food items and efficiency of the farming process. More and more biotechnology research and development labs will be established to

- meet the demand for good seeds. The irrigation and power supply will be facilitated for the growing demand of the product funded by these big giants. The organized retail marketing will channelise large-scale private investments into irrigation, agriculture marketing, agriculture extension services and infrastructure such as roads, cold storage and grain banks.
- Farmers are likely to get better prices for their products as these mega retailers are likely to procure their farm products directly from the farmers. Many of the middle men would be eliminated. They start contracts based farming and get assured buyer with stable price. The food procurement business helps the farmers when government controversial decisions to import food items or when state procurement agencies stay away
 - People becoming fashion conscious. The retail markets bring the latest in fashion accessories and kids wear for customers of all age groups. Indian customers will accept the international fashion brands like Parfois, Vincci, Oakidi and Obaibi with open arms and there will be drastic changes in the dress code. The traditional saree, Kadhi and silks dress will be shifted to occasional one. Baby care products like bed linen, rolling products, handbags, jewelry, watches, sunglasses, hats, belts and hair accessories and Vincci range of footwear of foreign brands will take place in the daily use of Indian customers. Figure 3 shows the retail segments ratio in Indian



- There will be new business opportunities. The retail boom surely encourages set up foreign brand names for manufacture in India. The Indian market become more competitive the small retailer groups will start using quality measures like Retail Service Quality Scales (RSQS) for their performance improvement and will develop new standers suitable to Indian context. The foreign retailers will engage in studies related to Indian customer behavior which is widely different and new ways to market local products available. Co-creation like Future Group with Food Bazaar and co-branded labels will be more. Opportunity for profit attracts more and more new business groups for entering in to this sector. 100 per cent export oriented unit like Himatsingka Seide, Welspum opening stores in Indian market. The business house like Wadia, Godrej, Tata entering in to organized retail sector. The players like Ebony, Crosswords, Globus, Café Coffee Day, Barista, Lifestyle start expanding their operations. This will trigger India's economic growth. Table 3 shows the sectoral GDP, growth rate, Employment of Indian economy.

	Industry	Growth		Percentage share in GDP: 2006-07	Employment 2004
		2005-06	2006-07		
1	Agricultural forestry and fishing	6.0	2.7	18.5	60.5
2	Industry	9.6	10.0	26.4	16.8
3	Services	9.8	11.2	55.1	22.7
	GDP at factor coast	9.0	9.2	100.0	

Source : FICCI 2004, Monthly Economic Report January 2007, Ministry of Finance (8(2)/Ec. Dn./2007)

- The IT sector offers fairly high income in Indian youngsters. The greater purchasing opportunity makes them to work hard for the luxuries in their life. The world class restaurants occupied in these retail showrooms will become a best place for get together and facilitate better family relation ship. These retail showrooms will be a great relief for old age people since they need not to walk anywhere. Those who come back to India from foreign nation would be able to keep using their favorite brands as they are easily available through these retail shops.
- The celebrations will become more enjoyable with costly gifts. The contest and offers during the festival season by theses big giants varies like air tickets, gadgets, jewelry, chocolates. The offers from air services like Singapore airlines and number of tourism development agencies like from other countries give a new face to the festival season in India.
- The shopping during festival season like onam, Diwali will be really a true experience with 'special of year' products. The sales during valentine's day in 2007 itself is around 15 percent more than during Diwali season in these Shoppe and it is expected to increase by 20-25 percent in coming year. These figures show the considerable influence of these retail outlets to bring more and more fun days to Indian society
- The cigarette manufactures will face strict completion from foreign brands. The places near the theses showrooms will become turn to posh areas. The street corner shops selling cheap product like Pan, Beedi etc in these places will disappear and significant reduce in the smoking at public place
- The traditional interiors of Indian houses will be replaced with items from countries like Japan, Korea, china and Taiwan. The local brands and traditional furniture which now disappeared will reborn with these foreign design and decorative items
- The retail boom will bring a rush in property development and significant improvements in real estate and construction work at every small town in the country. Table 4 shows the drastic changes in the Indian cities.

Urban Share Population.		Average Return on Investment in Retail Real Estate.	
Year	Growth Rate		
1991	26%	Tier 1 Cities	9-10%
2001	28%	Tier 2 Cities	8-9%
2011	41% est.	Tier 3 Cities	10-11%

Source : Ernst & Young

- Infrastructure and traffic facilities will improve significantly. Most of these stores are located away from the town areas they will encourage to facilitate the road and transport facilities to remote areas in the country. The gridlock of cars and other vehicles in the town areas will be reduced since the shopping centers find difficult to find parking areas and often the customers vehicle bring lot of traffic jam in peak hours .The shoppers will be spending money to develop these area.
- Better weather forecasting will be take place as Wal-Mart like big giants start depending on local whether data for replenishment purpose. Consumers will be benefited by the call centre

agents to enquire on particular product. For better store connectivity they will facilitate the real time status monitoring application, transformational technology like RFID, service based infrastructure and Virtual Private Networks. The IT professionals start developing retail technology products like Personal Shopping Assistant (PSA), ERP and CRM applications which will look in to inventory turn and stock availability by communicating in real time. IT industry will bring web portals to avoid go to market mechanism and innovative technologies like Ontological applications for treat each customer as unique. Number of strategic acquisitions like Oracle acquisition of Retek, 360Commerece, ProfitLogic etc in the IT industries will take place to meet the retail specific functionality. Establishment of new centers like TCS retail innovation lab, HCL, Oracle Retail Centre for the requirement engineering and related process will take place across the country.

- Retail showrooms will start offering multi channel online retailing facility. The Indian society shift to purchase product and services online in a large amount. The online shopping destinations like eBay, Amazone comparison shopping portals like froogle and shopping.com will be more popular in Indian community. New domestic e-commerce retailers will born. There will be increase in the banks offerings and online facilities. The society will start using these online banking facilities, credit cards etc more and more in their daily life. The customer will be saving lot of time and have a better comparison of product in the neighborhood retail showrooms. The competition become more as adjacent district showrooms will deliver better product with in few hours. Many other related industry start advertising their product in these local web portals. This will be benefit to the small scale industry units.

The flip side of this revolution

The flip side is equally prominent, large section of India's people are still deprived of the fruits of development. 26 percent of India lives below poverty line their life will become more pathetic and result in increased social tensions. Table 5 shows the urban and rural area poverty rate in India.

. Year	Poverty Ratio (Per cent)			Number Of Poor (Millions)		
	Rural	Urban	Combined	Rural	Urban	Combined
1993-94	37.3	32.4	36.0	244.0	76.3	320.3
1999-00	27.1	23.6	26.1	193.2	67.1	260.3
2007	21.1	15.1	19.3	170.5	49.6	220.1

Source : Economywatch, March 07

Around 40 million people in India depend on the unorganized retail sector, the trade unions and traders fear these people's livelihoods will be ruined if retail giants are permitted to enter India's retail market, some of the negative outcomes

- It is observed that the presence of big retailers like Wal-Mart depresses the wages of the employees at the bottom of the pyramid in the community. Some of the retail market giants who going to print their foot in India are notorious for driving out competition and slashing labour costs in other countries. Most of the employment opportunities that promise to create are for the semi skilled and unskilled labors this is not useful for majority of highly educated Indian youth. Reliance already started using two of the special economic zone as warehouse for their retail outlets. Farmers lost their lively hood as most of the area that acquired for the purpose are farm land. The promised compensation packages are often inadequate. Due to delay in processing and corrupted middle players of government employees, it is not reaching to the real farmers. Most of the place senior citizens protesting against for their farm land

- acquisition are arrested and imprisoned for several months. The great apprehensions about these retail giants' styles of operation will bring law and order problems in the country.
- The coming of the big players in the retail market would be last nail in the coffin for the friendly neighborhood kirana stores. The personal touch one used to get from the service of kirana stores would be a thing of the past.
 - Presence of international drug retail chains, will force to wind up our stand alone chemist in the country. Apollo is ramping up its present network of over 120 pharmacies to 1,000 pharmacies by 2009. Bangalore based LifeKen, owned by Lifetime Healthcare Pvt Ltd, which now has over 60 stores in Chennai and Bangalore has plans to ramp up to 200 stores within a year and to 700 stores in the next three years. Big industries like Ranbaxy, ADAG, Pantaloon (Tulsi), Dial fo Health, Health & Glow, Guardian Pharmacy are in the ground for operating thousand of pharmacies and healthcare stores all over the country especially northern region. This will badly affect the rehabilitation aids, functioning of government hospitals and other small health care units in the country
 - The life style of the community would change. In food consumption, heat and eat culture would replace the conventional cooking habits of the populace. Fast foods and junk foods would replace the more nutritional conventional foods
 - Whole sale commodity markets would disappear and there would be considerable job loss. The annual rate of inflation based on wholesale price indexing is shown in Table: 6. The inflation level are over 6 percent for week ended January 2007 compared with 4.04 percent a year ago This rate is contributed by the 10.7 percent in primary article which shows the basic necessitates are getting costlier day by day and the benefits of retail boom is not useful for the common man.

Table 6: INFLATION : VARIATION IN WHOLESALE PRICE INDEX (Base: 1993-94)

Items/Groups	Weight (%)	Percent variation during			
		Month end		Year (Point to Point) (ending 27-1-2007)	
		Last year	Current year	Last year	Current year
All Commodities	100.00	-0.61	0.34	4.04	6.58
1. Primary articles	22.03	-0.26	1.18	5.66	10.65
2. Fuel, Power, Light and Lubricants	14.23	-0.13	0.06	7.84	3.67
3. Manufactured Products	63.75	-0.99	0.11	1.97	6.21

Source : Monthly Economic Report January 2007, Ministry of Finance (8(2)/Ec. Dn./2007)

- Retail giants with strong presence in other countries get the products cheapest rates possible from around the globe like oranges from California, pineapples from Hawaii and apples from Washington. The existing apple industry in Kashmir and Himachal will be badly affected. The presence of seasonal fruits from foreign country will surely decrease the market for Indian fruit. India's estimated 2% food processing will struggle with the imported apple juice and processed food items. The domestic food product wastage which is 40% now will increase. The Indian tea market may vanish by the cheaper tea from Vietnamese. This global supply chain will become outlets for cheap Chinese made goods stores in India.
- The decreasing sales of fruit juice, sauce and bread items in small shops will stop the supply/movement of these ready to eat products to the owner manned general stores, which will affect the lively hood of 3.95 crores of unorganized retail trade employees.
- Impulsive buyers and compulsive shoppers would get into debt traps enamoured by the fantastic displays put up by the big retailers. The tendency for conspicuous consumption would be reinforced.
- The inexorable journey to bland cultural homogeneity started with globalisation would be speeded up. Local products would go off the shelf and more popular products would take its place.

Need of Regulations

Change is inevitable. Different retailers serve for different needs of Indian society trying to protect any group of retailers through special laws hurt the customers. The foreign retailers failed in countries like Japan. If the retailers growth is prevented in India the expected economic growth will be badly affected. But law enforcement and rules like Micro, Small and Medium Enterprises act 2006, Agricultural Produce Marketing Committee (APMC) act etc should be effectively implemented to make sure that small and local business are not adversely affected. Department of industrial policy and promotion Polices (DIPP) and local governing bodies should make polices to integrate small trading class as partners in the large retail chains so that they too can benefit from new technologies and new management practices. State government must have control over these retailers and they should bring conditionality for the functioning of foreign retailers from place to place. They should closely monitor their functioning and introduce new internal self regulations. Banking finance for the welfare of unorganized sector for improving their efficiency should be enhanced. Strict labor laws and limited opening hours must be there for theses shops. The FDI policies should be reformed from time to time and foreigners entering strategies like franchise agreement, cash and carry whole sale trading, strategic licensing agreement make foolproof for avoiding global retailers to engage in full retailing. Like Mexico, Brazil, Argentina, Uruguay, Chile and Costa Rica got together to brought new legislation to prevent Wal-Mart from opening too many stores in their countries. India should not allow the retail giants from monopolizing market above some per cent in any sector. The price of commodities should be agreed by the state government. Mutual agreement with local government for the promotion of local commodities and employment should be signed by the foreign vendors. The food processing and allied services should bring under reserved items. The procurement must be through government agencies like supply co. The ministry should make sure that for all foreign retailers wishing to enter India, they should give an undertaking that whatever volume of business they generate in India for the first 10 years, they must export an equivalent amount (or more) from India for these 10 years This will facilitate Indian manufacturing sector to get a boost. All foreign retailers must undertake to buy at least 50% of their merchandise (by retail value) from within India. This will prevent any dumping in India. All large retailers (of say total retail space > 250 square feet) must have a 4 percent turnover cess that should be used by the Government to provide technology, training, and marketing support (through local small retailer associations) to kirana / other neighborhood stores. Government should make sure that the farmers are getting real profit of their product which were bulkily procured and stored in the cold storage of these retailers, during off-season as well.

Conclusion

The paper paints a verbal picture of the impending retail boom likely to happen sooner than later. The signs are all over the place. For few years foreign retailers will have the role of facilitator for to standardize the agribusiness and to unify customer's preference across the country. The competition will help to increase the quality of service of the existing local retailers and greater customer satisfaction in Indian society. Concept of self employment will vanish and sustainable small industries will be roped with the big chains. Paper gives a glimpse of the slow evolution of retail market over the years. A concise description of the drivers of this phenomenon was discussed. The likely positive and negative impact of this revolution is enumerated.

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