

Impact of Organized Retail Sector in the Economy of India

Dr. Avinash Kumar

Assistant Professor, University Department of Commerce & Business Management, Ranchi University, Ranchi

ABSTRACT

Retailing is currently the booming sector of the Indian economy. Retail sector is expected to grow tremendously in next few decades, attracting huge attention from all quarters of the economy-entrepreneurs, business heads, investors as well as real estate owners and builders. Retail sector is expected to create huge employment as it will expand across the country at a massive scale. The reason for this expansion of retail is evidently related to the liberalization and opening up of the Indian economy which had immense effects on the consumer demand tastes and preferences as well as the buying capacities of the Indian's over the past few years. Slowly and steadily retail has witnessed considerable growth while a new form of organized retail sector has emerged within the retail industry. In the growing market, retail marketing has become one of the major emerging trends in the entire economical cycle. It is the retail market only which provides the consumer a basic platform to encounter with goods and a shop keeper for the first time. Retail market consists of a fixed location like boutique, store, departmental store etc, here in these location consumers meets the shop keeper and purchase goods in return of certain value. Maintaining a certain profit margin, these shop keepers sell goods to their consumers. The basic motive of these shopkeepers is to satisfy the consumers and fulfill their needs and demands.

Keywords: departmental stores, traditional retailing, higher prices

INTRODUCTION

Organized retail sector refers to the sectors undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate retail formats of the exclusive brand outlets, hypermarkets, supermarkets, departmental stores and shopping malls. Organised retail in India is a decade or so old phenomenon. During the last ten or twelve years it has progressed well. At the same time, it is facing many problems, challenges, difficulties some are general and others are India specific. The recent years have witnessed rapid transformation and vigorous profits in Indian retail stores across various categories This can be contemplated as a result of the changing attitude of Indian consumers and their overwhelming acceptance to modern retail formats. Asian markets witness a shift in trend from traditional retailing to organized retailing driven by the liberalizations on Foreign Direct Investments. For example, in China there was a drastic structural development after FDI was permitted in retailing. India has entered a stage of positive economic development which requires liberalization of the retail market to gain a significant enhancement.

An important aspect of the current economic scenario in India is the emergence of organized retail. There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the future, Major industrial houses have entered this area and have announced very ambitious future expansion plans. Transnational corporations are also seeking to come to India and set up retail chains in collaboration with big Indian companies. However, opinions are divided on the impact of the growth of organized retail in the country. Concerns have been raised that the growth of organized retailing may have an adverse impact on retailers in the unorganized sector. It has also been argued that growth of organized retailing will yield efficiencies in the supply chain, enabling better access to markets to producers (including farmers and small producers) and enabling higher prices, on the one hand and lower prices to consumers, on the other. In the context of divergent views on the impact of organized retail, it is essential that an in-depth analytical study on the possible effects of organized retailing in India be conducted in the developed economies, organized retail is in the range of 75-80 per cent of total retail, whereas in developing economies, the unorganized sector dominates the retail business Modern retail formats, such as hypermarkets, superstores,

supermarkets, discount and convenience stores are widely present in the developed world, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. In developing countries, the retailing business continues to be dominated by family-run neighborhood shops and open markets. Therefore, wholesalers and distributors who carry products from industrial suppliers and agricultural producers to the independent family-owned shops and open markets remain a critical part of the supply chain in these countries.

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MATERIALS AND METHODS

For the purpose of in depth study the contents have been taken from interview, relevant books and articles from journals and websites. The method used is analytical and descriptive. Both primary as well as secondary source of information have been taken.

RESULTS AND DISCUSSIONS

Organised retail in India is a decade or so old phenomenon. During the last ten or twelve years it has progressed well. At the same time, it is facing many problems, challenges, difficulties some are general and others are India specific. The recent years have witnessed rapid transformation and vigorous profits in Indian retail stores across various categories. This can be contemplated as a result of the changing attitude of Indian consumers and their overwhelming acceptance to modern retail formats. Asian markets witness a shift in trend from traditional retailing to organized retailing driven by the liberalizations on Foreign Direct Investments. For example, in China there was a drastic structural development after FDI was permitted in retailing. India has entered a stage of positive economic development which requires liberalization of the retail market to gain a significant enhancement.

Domestic consumption market in India is estimated to grow approximately 7 to 8% with retail accounting for 60% of the overall segment. Of this 60%, organized retail is just 5% which is comparatively lesser than other countries. In emerging economies in developed countries organized retailing is the established way of selling consumer products. Despite the low percentage, Indian textile industry has grown noticeably in organized retailing of textile products. The negative phase in exports may have compelled the Indian textile retailers to explore the opportunities in the domestic market substantially causing the outstanding growth in the concerned segment. These indications give a positive notion that organized retailing has arrived in the Indian market and is here to stay. It is expected to grow 25-30 per cent annually and would triple in size from Rs. 35,000 crore to Rs. 109,000 crore (\$ 24 billion).

India is on the radar screen in the retail world and global retailers are at their wings seeking entry into the Indian retail market. The market is growing at a steady rate of 11-12 percent and accounts for around 10 percent of the country's GDP. The inherent attractiveness of this segment lures retail giants and investments are likely to sky rocket with an estimate of Rs. 20-25 billion in the next 2-3 years, and over Rs. 200 billion. Indian retail market is considered to be the second largest in the world in terms of growth potential.

A vast majority of India's young population favors branded garments. With the influence of visual media, urban consumer trends have spread across the rural areas also. The shopping spree of the young Indians for clothing, favorable income demographics, increasing population of young people joining the workforce with considerably higher disposable income, has unleashed new possibilities for retail growth even in the rural areas. Thus, 85% of the retail boom which was focused only in the metros has started to infiltrate towards smaller cities and towns. Tier II cities are already receiving focused attention of retailers and the other smaller towns and even villages are likely to join in the coming years. This is a positive trend, and the contribution of these tier-II cities to total organized retailing sales is expected to grow to 20-25%.

The Indian retail sector is highly fragmented, consisting predominantly of small, independent, and owner managed shop. The domestic organized retail industry is at a nascent stage. India got started with organized chain retailing just a few years ago. There are just very few categories, the most prominent being apparel, where organized retail chains have had a significant presence for more than 3-4 years. Indian retailers have done very well. Particularly after taking into account the various obstacles and hindrances like real estate costs, lack of trained manpower etc.

Growth of organized sector of retailing will yield efficiencies in the supply chain, enabling better access to markets, to producers and to customers. The strength of organized retail lies in resource availability. It can translate into efficient supply chain management, leading to faster inventory turnaround, resulting in improved bottom lines. It is anticipated that the further belongs to organized sector in India. India's organized sector is all set to explode. While the existing players such as future group, Bharti, Reliance Retail, Essar, Shopper's stop and Aditya Birla group are endeavoring to consolidate their markets, others such as Mahindra & Mahindra, Parsavnath & DLF Hero Honda & India bulls have announced plans to enter the retail sector.

Growth of Organised Retail Sector

The Indian Organised Retail Sector in the single brand segment has received Foreign Direct Investment (FDI) equity inflows totaling US\$ 344.9 million during April 2000 March 2015, according to the Department of Industrial Policies and Promotion (DIPP). With the rising need for consumer goods in different sectors including consumer electronics and home appliances, many companies have invested in the Indian retail space in the past few months.

- Amazon India expanded its logistics footprint three times to more than 2,100 cities and towns in 2015, as Amazon.com invested more than US\$ 700 million in its India operations since July 2014.
- Adidas AG, renowned for its Adidas and Reebok sports brands, has become the first foreign sports company to get government approval to open 100 per cent foreign-owned stores in India.
- Wal-Mart India plans to add 50 more cash-and-carry stores in India over the next four to five years.
- Aeropostale, an American teen fashion retailer, has chosen to enter India over China, and expects India to be among its top three markets over the next four years with revenue target of Rs 500 crore (US\$ 75 million).
- Opinio, a hyperlocal delivery start-up, has raised US\$ 7 million in a Series A funding from Gurgaon-based e-commerce fulfillment service firm Delhivery along with investment from Sands Capital and Accel Partners.
- Textile major Arvind Limited has announced a partnership with Sephora, owned by LVMH Moët Hennessy Louis Vuitton, a French luxury conglomerate, in order to enter into the beauty and cosmetics segment.
- Mobile wallet company Mobikwik has partnered with Jabong.com to provide mobile payment services to Jabong's customers.
- Data Wind partnered with Home Shop 18 to expand its retail footprint in the country. Under the partnership, Home Shop 18 and DataWind would jointly launch special sales programmes across broadcast, mobile and internet media to provide greater access to the latter's tablet range.
- 'Fashion And You' has opened three distribution hubs in Surat, Mumbai and Bengaluru to accelerate deliveries.
- Abu Dhabi-based Lulu Group plans to invest Rs 2,500 crore (US\$ 375 million) in a fruit and vegetable processing unit, an integrated meat processing unit, and a modern shopping mall in Hyderabad.
- Aditya Birla Retail, a part of the US\$ 40 billion Aditya Birla Group and the fourth largest supermarket retailer in the country, acquired Total hypermarkets owned by Jubilant Retail.
- With an aim to strengthen its advertising segment, Flipkart acquired mobile ad network AdiQuity, which has a history of mobile innovations and valuable experience in the ad space.
- US-based Pizza chain Sbarro plans an almost threefold increase in its store count from the current 17 to 50 over the next two years through multiple business models.

Government Initiatives

The Government of India has taken various initiatives to improve the retail industry in India.

- The Ministry of Urban Development has come out with a Smart National Common Mobility Card (NCCM) model to enable seamless travel by metros and other transport systems across the country, as well as retail purchases.
- IKEA, the world's largest furniture retailer bought its first piece of land in India in Hyderabad, the joint capital of Telangana and Andhra Pradesh, for building a retail store. IKEA's retail outlets have a standard design and each location entails an investment of around Rs 500-600 crore (US\$ 75-90 million).
- The Government of India has accepted the changes proposed by Rajya Sabha select committee to the bill introducing Goods and Services Tax (GST). Implementation of GST is expected to enable easier movement of goods across the country thereby improving retail operations for pan-India retailers.
- The Government has approved a proposal to scrap the distinctions among different types of overseas investments by shifting to a single composite limit, which means portfolio investment up to 49 per cent will not require government approval nor will it have to comply with sectoral conditions as long as it does not result in a transfer of ownership and/or control of Indian entities to foreigners. As a result, foreign investments are expected to be increase especially in the attractive retail sector.



Role of Organised Retail in Indian Economy

Organized retailing brings many advantages to producers and also to urban consumers, while also providing employment of a higher quality. Organized retailing in agricultural produce can set up supply chains, give better prices to farmers for their produce and facilitate agro-processing industries. Modern retailing can bring in new technology and reduce consumer prices, thus stimulating demand and thereby providing more employment in production. The organized retail market boom expected to become one of the pillars of Indian economy.

Benefits to Agriculture Sector On the agricultural front, the organized retailing will work with farmers to improve yields by enabling them to obtain quality input supplies, adopt superior farm technology, and access timely credit at reasonable rates. Organized retailing will offer the farmer an alternative market which is more transparent, and less time consuming. Organized retailers have already started procuring fruits and vegetables from farmers directly bypassing middlemen who add more cost than value to food chain. All these will enhance farmer's realization, improve quality of products at the shop and reduce the ultimate consumer price.

Advantage to Manufacturing Sector The Planning Commission of India has identified four sectors viz food processing industry, textiles and clothing, tourism, construction as the major employment generating sectors for the Eleventh Plan period. Except tourism, all these sectors are getting filled with the growth of organized retail. Small and Medium Industry (SMI) sector will get a tremendous boost by producing for the big organized retail companies and will grow along with the organized retail business.

Improvement of Government Revenues Another important advantage of organized retailing is its contribution to government revenues. Unorganized retailers normally do not pay taxes and most of them are not even registered for sale tax, VAT, or income tax. Organized retailers are corporate entities and hence file tax returns regularly. The growth of organized retail business will be associated with a steady rise in tax receipts for the central, state and local government.

Boost to Exports Organized retail's link with exports comes through foreign investors. International retailers look for sources around the world and a country in which they operate becomes a source for their global sales. Some of the international retailers that have plans for India in the future have already developed suppliers in the country and have started exporting from India.

Rise in Growth and Productivity in India, organized retail will raise productivity and growth by pulling up the current lagging sectors such as agriculture, food processing industry and textiles. Organized retail has potential to lift the Indian economy to higher levels of growth and productivity by removing the inefficiencies of various sectors. Besides, in order to meet the rapidly growing demand for retail space, construction of real estate is taking place at a fast pace.

Impact on Employment Retail is a huge sector for employment. The growth of organized retail is enhancing the employment potential of the Indian economy. While providing direct employment in retail, it will drive the growth of a number of activities in the economy which in turn will open up employment opportunities to several people. Organized retailing is expected to bring about positive employment impact in terms of quantity (more jobs will be created) and quality (security of job benefits etc. will be better).

CONCLUSION

The Organised Retail Sector of Indian Economy is going through the phase of tremendous transformation. An important aspect of the current economic scenario in India is the emergence of organized retail. There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the future. Major industrial houses have entered this area and have announced very ambitious future expansion plans. Transnational corporations are also seeking to come to India and set up retail chains in collaboration with big Indian companies. However, opinions are divided on the impact of the growth of organized retail in the country. Organized retailing brings many advantages to producers and also to urban consumers, while also providing employment of a higher quality. Organized retailing in agricultural produce can set up supply chains, give better prices to farmers for their produce and facilitate agro-processing industries. Modern retailing can bring in new technology and reduce consumer prices, thus stimulating demand and thereby providing more employment in production. The organized retail market boom expected to become one of the pillars of Indian economy.

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