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**Retailing in India**

Trends, Opportunities and challenges

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## Index

No.	Title of the Paper	Authors' Name	Page No.
1	New Trends and Challenges before Retailing in India	Dr. S.D. Khairnar	05
2	Retailing in India-Growth and Challenges	Dr. K. T. Khairnar	10
3	Assessing Impact of GST on Retail Sector in India	Dr. Rajendra Dhande	15
4	A Study of E-Retailing in India : Challenges and Prospects in the Current Scenario	Dr. Mangesh Bhavsar	20
5	Retail Marketing in Rural India: Scope and Challenges	Dr. Narayan Gadhe	25
6	Future of Retail Business in India with Special Reference to Habits, Attitude and Style of Customers of India.	Dr. Sunil Joshi	29
7	Changing Trends in Retailing due to Globalization	Dr. Vijay Mistary	35
8	Retailing: Emerging Challenges and Future Trends in Retail Sector	Mr. Harshal Deshmukh & Ms. Deepali. Mane	40
9	New Trends of Retail Marketing	Ms. Deepali Chandramore	48
10	FDI in India's Multi Brand Retail: 'Need of The Hour'	Mr. Uday K. Teke	53
11	Retail Formats and Challenges in Retailing	Dr. Pravin Rayate & Dr. G. M. Ahire	60
12	Retail Marketing in India- Scope and Prospects	Dr. Arti Lokhande,	66
13	Food Services Retail Industry Engine for Economic Growth of Nashik City	Dr. Ganesh Teltumbade & Dr. Ashutosh More	73
14	New Trends of Retail Marketing in India	Smt. Hemlata Darade	82
15	E-Retailing: Advantages and Challenges in India	Dr. Archana Hatte	87
16	Recent Trends & Emerging Opportunities of Retailing in India	Aarti Chhajed	92
17	E-Marketing	Dr. Somnath Sanap	98
18	Global Onion Marketing Management in Nashik District	Dr. Shivaji Thore	104
19	Marketing Strategies for Retail Business	Dr. B.A. Shelar & Dr. Jitendra Sali.	112
20	Impact of GST on Retail Sector in India	Rupali K. Sanap.	117
21	A Study of Internet Marketing in India with Special Reference to carwale.com	Dr. M. P. Pagar	121

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- Executive Editor



## FDI IN INDIA'S MULTI BRAND RETAIL: 'NEED OF THE HOUR'

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### **Introduction :**

The share of organized retailing in India, at around 2%, is too low, compared to 80% in the USA, 40% in Thailand and 20% in China, thus leaving the huge market potential largely unexploited. Increasing earning levels, education and an international revelation have contributed to the progression of the Indian middle class purchasing and shopping practices are expand as an outcome. Retailing all the way through non-traditional channels such as Fuel Stations, Direct Selling and Home Shopping is on the rise. Contemporary organized retail is short and uneven with cast list not being able to harvest economies of scale. However, retailing through formats such as supermarkets, hypermarkets, department stores and other forte chains are increase. Top business houses in the country are investing in this sector. This includes Food World, Shopper's Stop, Crossroads, Globas, Pyramid and other such outlets. FDI in retail trading is not encouraged in any form. However, a few overseas retail names appear in the marketplace in the nature of franchisee. Quite a lot of companies including Metro, Carrefour and Ahold are exploring way in options. Benetton, Lifestyle and Zegna are already in the Industry in India. Organized retail is a profitable proposition for a thespian that can bring supreme practices from around the globe, leverage economies of scale and accumulate these benefits through retail operations in India. India has a powerful middle class of 350 million and sophisticated personnel to lever diverse significant functions like merchandising, sales promotion, inventory management, purchasing and marketing. Despite the global economic recession and a consequent slowdown in the Indian economy, organized retail continued to make progress although at a slower rate in 2009. However, if the current retail picture is compared with that of 2004, it has indisputably become a much larger environment. Huge retailers such as Wal-Mart, Tesco and Marks & Spencer have already made inroads into the Indian retail industry and with multi-billion dollar investments by major domestic players such as Reliance Retail; the market is expected to go from strength to strength. India also possesses IT skills in the area of supply chain management, database management and inventory management. A number of drivers are aiding the development of the Industry such as improved levels of income and increasing purchasing power, entry of foreign retailers and reforms in real estate markets. Given these developments the organized retailing sector is poised for significant growth in the country.

### **Global Giants who are interested to enter in Indian retail market :**

#### **Wal-Mart:**

Wal-Mart has emerged as one of the largest corporations in the world, and definitely the largest in retail. It started only fifty years ago (in 1962 (1962)). In May 2009, Wal-Mart was ready to open its first store in India. The reason for Wal-Mart's entry in India was clear – The Indian middle class. Wal-Mart's first outlet was set to launch in the city of Amritsar, Punjab in North India. The first store air-conditioned and built over 50,000 sq.ft.was on the outskirts



of the city, Amritsar. The store employed 200 locals and was likely create 500 indirect job  
A typical Wal-Mart store sells 60,000 different items; a super center sells 120,000 items.

#### **Carrefour :**

French retail major Carrefour Founded in 1959, the second-largest in the world in terms of revenue (euro 90 billion) after Wal-Mart, is going slow in India, Carrefour launched its first store in India, a cash-and-carry wholesale format store at Seelampur, East Delhi on 30th December 2010, and the second in Jaipur, wants to open a dozen more in the near future. Carrefour's only cash-and-carry store in Asia at present is in India. The groups has a total of 151 cash-and carry stores - 137 in France, 13 in Europe (excluding France) and 1 in Asia.

#### **Tesco :**

Tesco Plc, (The UK's largest retailer) founded in 1919, the world's third largest retailer which runs 5,380 stores in 14 markets around the world, had been looking at entering India. has put off its plans to set up cash-and-carry (wholesale) stores in the country. Currently focusing on its existing franchise agreement with the Tata-run Trent.

#### **Metro AG :**

Metro AG, Germany's largest cash & carry group founded in 1964, opened its first wholesale store in India in 2003 & opened its tenth wholesale store in India in New Delhi, adding to those it operates in Bangalore, Hyderabad, Mumbai, Kolkata, Ludhiana and Jalandhar.

#### **SWOT analysis of Indian Retail Industry:**

The strategic analysis of environmental factors is referred as SWOT analysis. This analysis provides the information that is helpful in understanding the retail sector resource mobilization and capabilities to the competitive environment in which it operates. Finally, this will be an instrumental in formulation of strategies for future growth and development of the sector.

#### **Strengths :**

1. Organized retailing at US\$ 3.31 billion, growing at 8%.
2. 2nd largest contributor to GDP after agriculture at 20%.
3. Pattern of consumption changing along with shopping trends.
4. Consumer spending increasing at 11% annually.
5. Almost 25 million sq. ft. retail space available.
6. Paradigm shift in shopping experience for consumers pulling in more people.

#### **Weaknesses :**

1. Shortage of quality retail spaces at affordable rates.
2. Government regulations on development of real estate (Urban Land Ceiling Act)
3. Need to provide Value for Money-squeezing margins.
4. Lack of industry status.
5. Retail revolution restricted to 250 million people due to monolithic urban-rural divide.
6. Lack of huge investments for expansion.
7. Political Instability.

8. Corruption, high cost of road transport due to Toll, increased prices of fuel.
9. Lack of trained and motivated manpower remains one of the main weakness.
10. India has a huge diversity in the habits, buying pattern, customer attitude, and the supply chain related issues.

#### **Opportunities :**

1. Increasing urban population-more participants in retail revolution.
2. Increase in consuming middle class population.
3. Social factors, like dual household income has enhanced spending power.
4. Spends moving towards lifestyle products and esteem enhancing products.
5. Average grocery spends at 42% of monthly spends-presents a huge opportunity.
6. Researchers have placed the growth of overall retail between 18-40%.
7. The idea of 'India as a consumer' has been accepted globally in the last 10 years.
8. The progressive decline in customs duty and other non-tariff barriers under the WTO regime liberalization policy of the Government would enable the organized retailers to import premium international brands.
9. The openness of the government to review some of its policies such as policy on FDI investment in multi-brand retail, policy on reforming agricultural marketing systems is an important opportunity in the present context which is going to favor huge capital investment in the sector.

#### **Threats :**

1. Rising lease/rental costs affecting project viability.
2. Poor monsoons and low GDP Growth could affect consumer spending drastically.
3. Archaic labor laws are a hindrance to providing 24/7 shopping experience.
4. Personalized service offered by Kirana stores.
5. Unavailability of qualified personnel to support exponential growth in retail.
6. Lack of uniform tax system hindering retailers
7. Continues inflation since last 3-4 years.
8. Our existing supply chain is uncomfortable in handling perishable commodities. This is due to multiple handling and the lack of rural infrastructure facilities.
9. FDI, up to 100%, permitted only in single-brand retail trading but in Multi brand retailing it is only upto 51% only
10. Government to have first right of procurement of agricultural products.

#### **Challenges faced by the Indian Retail Sector and success factors :**

Although the Organized Retail market does offer a vast unutilized potential, it should also be recognized that it is not that easy to operate in Retail market because of several problems.

##### **1) Continuous and adequate power supply :**

A study done by Enterprise Surveys has revealed that inadequate power supply is the most important obstacle to the development and growth of retail in India. Insufficient and inefficient power supply, a huge amount of private investment goes into ensuring power backups. This makes it very difficult for organized retail to grow.



- 2) **Logistics and supply chain :**  
Managing the supply chain is the core of the retailer's business since the products have to be moved from the point of manufacture to the point of consumption (Customer). It is believed an inadequate logistics infrastructure knocks 1 to 2 percent off India's average annual GDP growth rate. Only 2 % of India's roads are highways, yet those highways handle more than 40 % of freight traffic. Logistics costs are estimated at about 13 percent of GDP compared with well below 10 percent in most developed economies.
- 3) **Right Location and Right Rental :**  
Finding the right location with the right rental for stores has been a challenge for all retailers. Rent charges 6 to 11 percent of the revenue and can more often than not convert a profitable store into loss making. The challenge for a retailer would be to find the right location for their stores either in malls or as a standalone store to be able to generate enough footfalls. Real estate prices in some cities in India are amongst the highest in the world. A high lease rental reduces the profitability of a project.
- 4) **Multiple and Complex tax system :**  
The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi-point octroi with the introduction of value Added Tax (VAT) in 2005, certain deviation in the existing sales tax system causing disruption in the supply chain.
- 5) **Inadequate Cold storage facilities :**  
Cold storage facilities form an integral part of the supply chain and are essential for storage and distribution of perishable goods and temperature sensitive items. The present cold storage capacity in India is grossly inadequate. There is an urgent need to scale up and develop integrated cold chain facilities across the country. Due to Inadequate Cold storage facilities 30- 40% of agricultural produce goes waste every year. India has required over 31 million tons of cold storage, but actually India has a capacity of nearly 21.7 million tones only.
- 6) **Lack of industry status :**  
Despite all the frenzy associated with the business, retailing has still not been accorded an industry status. Due to the absence of 'industry status', organized retail in India faces difficulties in procurement of organized financing, fiscal incentives and bank credit facilities. The Government should grant the much needed 'industry status' to the sector so that the sops that come with it helps promote both big & small retailers.
- 7) **Retail shrinkage :**  
Retail shrinkage is also one of the major challenges. Retail shrinkage is the difference in the value of stock as per the books and the actual stock available in the shop. The causes of retail shrinkage are mainly employee theft, shoplifting, administrative errors and vendor fraud. Effective online monitoring system need to be implemented.
- 8) **Unique Indian customer :**  
The Indian consumer experiencing modern retailing but buying habits have still not changed, where people prefer to buy most of the fruits and vegetables on a daily basis.



The Indian consumers have a strong preference for freshly cooked food over packaged food. There is also an impact on the basket size because of non-availability of personal transport facilities, due to which the consumers prefer to buy smaller quantities from stores conveniently located near their homes.

- 9) **Shortage of skilled workforce** in retail sector
- 10) **Technology** is one of the major challenges faced by organized retailers for efficient management.
- 11) **Competition from unorganized sector** is another challenge facing the organized retail industry in India.

#### **Success Factors :**

Despite above challenges some success factors also available in India to this sector.

- 1) Huge Market Size
- 2) Increasing purchasing power - Consumer spending power increased by 75% in last 3 years.
- 3) Evolution of new consumption class: Consumer class expected to grow from approx. 50 million at present to 583 million by 2025.
- 4) Tax breaks Import duty exemptions, land & power subsidies and other incentives
- 5) Affordable labor
- 6) Rich and diversified natural resources.
- 7) Increased urbanization has shifted consumers to one place and thus a single retail can catch more customers.
- 8) Nuclear Family income level of these nuclear families increases because both members started earning.
- 9) Increased use of credit cards is in favor of retail marketing. It creates requirement even when it is not necessary.
- 10) India's huge population has a per capita income of Rs.44,345.
- 11) The Demography Dynamics are also favorable as approximately 60 per cent of Indian population is below the age of 30.
- 12) India's booming economy is a major Success Factor.
- 13) Impact of media on their lifestyle has made the retailers find the market for new and lucrative products.

#### **Recommendations/Suggestions before allowing FDI in Multi brand Retailing :**

Few suggestions given by Retail Association of India for allowing FDI in retail (Indian Express (2006) —R-day reforms: Single brand retail opened to foreign funds)

1. Providing industry status is the first basic step needed for reforming the Indian retail sector.
2. To strengthen the retail industry, it is important for a serious revision of the labour laws to bring them at par with the western world. The laws should be suitably



to enter into the markets. Many foreign investors are also showing keen interest to enter into the Indian market. There are many challenges that need to be addressed by the retailers as well as the government. Firstly for FDI in retail marketing that requires policy changes, there are other major issues that retailers have to invest heavily in technology to monitor stocks and their movement, both in-stores as well as enroute. This will enable them to adopt concepts such as QRDS (Quick Response Delivery System) and ECR (Efficient Customer Response). Another focus area is the supply chain. The entire supply chain in the country is dominated by unorganized players with several layers of intermediaries, thereby adding to wastage and pilferage at each level. According to Confederation of Indian Industry (CII), post-harvest losses of fruits and vegetables are about 25% to 30%. The only way out is to focus on creation of road, rail and air links and connect the same to cold storage facilities in different parts of the country. Considering the contribution of retail towards the GDP of the country it is time the government chips in with active participation.

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