



A STUDY ON THE CHALLENGES ARISING IN THE ORGANISED RETAILING IN INDIA

Rahul Singh

Research Scholar, Monad University, Pilakhuwa (U.P.)

Dr. Jeet Singh

Head, Department of Commerce,
Mahamaya Government Degree College, Sherkot, Bijnor– 246747 (U.P.)

Abstract

Retail in India is still at a very early stage. Most retail firms are companies from other industries that are now entering the retail sector on account of its amazing potential. There are only a handful of companies with a retail background. Their achievement has led to the arrival of numerous other players, most with the backing of large corporate houses, but usually not with a retail background. Most new entrants to the India retail scene are real estate groups who see their access to and knowledge of land, location and construction as prime factors for entering the market. The Indian organized retailing is facing lots of challenges. The present study looks into the challenges and suggests certain measures to reduce these challenges. The study presents the perception of organized retailers in the Moradabad city regarding the challenges faced by them and what customers expect from them. The data have been analyzed on 5 point Likert scale and mean scores have been taken. The paper conclude that the day is not far away when the fast growth of organized retailing can be possible in India.

Key words: Challenges, FDI, Organised retailing, Retail industry

INTRODCUTION

Indian retailing industry has seen phenomenal growth in the last five years. Organized retailing has finally emerged from the shadows of unorganized retailing and is contributing significantly to the growth of Indian retail sector. The Indian Retail Industry is the largest among all the industries, accounting for over ten percent of the country's Gross Domestic Product and around eight percent of the employment. The Retail Industry is a dynamic and one of the fast paced industries attracted many players. But all of them have not come up with success. Indian Retail Industry is ranked among the ten largest retail markets in the world. The attitudinal shift of the consumer in terms of Choice Preference, Value for Money and emerging retail formats have transformed the face of retailing in India.



THE INDIAN RETAIL SCENARIO

Retail in India is still at a very early stage. Most retail firms are companies from other industries that are now entering the retail sector on account of its amazing potential. There are only a handful of companies with a retail background. Their achievement has led to the arrival of numerous other players, most with the backing of large corporate houses, but usually not with a retail background. Most new entrants to the India retail scene are real estate groups who see their access to and knowledge of land, location and construction as prime factors for entering the market.

New retail stores have traditionally started operations in cities like Mumbai and Delhi where there has been an existing base of metropolitan consumers with ready cash and global tastes. However, a new trend has been developed of entering in to the retail sector in smaller cities rather than focusing entirely on the metro cities. Spending power in India is not concentrated any more in just four metro cities. Smaller but upcoming cities like Ghaziabad, Pune, Ahmedabad, Chandigarh, Ludhiana etc. will fast be catching up to the metros in their spending capacity. Cities in south India have taken to the supermarket style of shopping very eagerly and so far the maximum number of organized grocery and departmental stores are in Chennai, Hyderabad and Bangalore. The north India has still a long way to go to come up to par. International stores now prefer to gauge the reaction of the public in these cities before investing heavily in a nationwide expansion. Milou, the Swiss children's wear retailer recently opened up its first store in Chennai, leaving aside Delhi and Mumbai.

Indians are very curious by nature and will try everything at least once before rejecting it. The initial success of KFC in India could make a success of most new ventures entering India but reject a concept once they have tried and tested the offering and found nothing worth going back for. The menu at KFC was rather boring and insipid to the Indian consumer who is used to the innumerable combinations and permutations of street food. For their second run in India KFC rethought its menu and has been very successful marketing at specific groups within India, like the Punjabis who have quite a history of loving the Chicken leg and have made the Chandigarh outlet a huge success.

India is among those countries which have the most unorganized retail market. More than ninety nine percent retailers function in less than five hundred square feet of shopping space. In the total Indian Retail Sector, the share of organized sector is just three percent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer. The purchasing power of Indian urban consumer is growing and it has been witnessed that they spend their surplus funds in purchasing four vehicles, expensive mobiles, electronic items and opting for a holiday packages. Nevertheless, branded merchandise in categories like apparels, watches,



food, cosmetics, jewellery, etc. are slowly becoming lifestyle products that are widely accepted by the urban Indian consumers. The Indian retail scenario has witnessed too many players in a very short span of time. A large number of players enter the battle field without looking at their core competencies or having a well thought out branding strategy. The sales of super markets have gone up at a rocket speed due to greater numbers of higher income Indians prefer to shop at super markets due to higher standards of hygiene and attractive ambience. In recent years, a few retail chains specialized products have come in the market. Although these retail chains account for only a small share of the total market, their business is likely to develop significantly in the coming years due to the growing quality consciousness of buyers for these products. There is a lot of potential in the Indian retail sector for the entry of specialized retail chains in the country. Increasing household incomes due to better economic opportunities have encouraged consumer spending on leisure and personal goods in the country. There are specialized retailers for each category of products in this sector. The durable goods sector in India has seen the entry of a large number of MNCs during the past few years. A greater choice is available to Indian customers in choosing electronic items and household appliances. It seems that there is a considerable potential for the entry or expansion of specialized retail chains in the country.

Modern retailing has entered India in the form of sprawling malls and huge complexes offering shopping, leisure, entertainment to the consumer as the retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to speciality chains. However, kiranas still continue to score over modern formats primarily due to the convenience factor. The structure of Indian retail is developing rapidly with shopping malls becoming increasingly common in the large cities and development plans being projected at 150 new shopping malls by 2008. However, the traditional grocers, hawkers and the like continue to co-exist with the modern formats of retailing. Modern retailing has helped the companies to increase the consumption of their products for example; Indian consumers would normally consume the rice sold at the nearby kiranas. With the introduction of organized retail, it has been noticed that the sale of Basmati rice has gone up by four times than it was a few years back; as a superior quality rice is now available at almost the same price as the normal rice at a local kirana. Thus the way a product is displayed and promoted influences its sales. However, the face of the Indian retail industry is changing. India is passing through a retail boom today. A number of changes have taken place on the Indian retail front such as increasing availability of international brands, increasing number of malls and hypermarkets and easy availability of retail space. As the Indian Government has opened up the doors for FDIU in retail sector, there has been a flood of foreign entrants in this sector. India has come a long way from the traditional Kirana stores and is on its way to becoming a mall country.



REVIEW OF LITERATURE

Dr. Pandey Atul and Dr. Yusuf Zai Rahil (2007), “Window Display in Garments and Groceries Retailing: A study of Rewa City”. This paper examined the linkages between window display and consumer response by exploring some insights of buyer’s psyche. It also examined the impact of demographic pattern on the consumers towards window display. Narayan Swar Biranchi (2007), “Challenges and opportunities of organised retailing in India”, Journal of IMS group Vol-4, July-dec 2007. This research will give the vital information of the Indian retail sector. In this paper information of the Indian retail sector is presented on both macro and level. It will give a brief idea about the scope for organized retailing in India. It will give a thrust to infrastructure development and lead to the evolution of an efficient supply chain which is the oxygen of modern retailing. Sinha Piyush Kumar and Kar Sanjay Kumar, “An insight into the growth of new retail formats in India”, 2007. This paper investigates modern retail developments and growth of modern formats in this country. It also discusses the challenges and opportunities available to the retailers to succeed in this country. Kaushik Anjali and Gupta Satya Bandhu, “Retail industry: Problem and challenges”, The bi-annual journal of Institute of Management Education, June 2006. This paper presents the current scenario of Indian retailing. It encounters with the problem and prospects of retailing in India.

OBJECTIVES OF THE STUDY

The present paper aims at the following objectives:

- To know about the challenges faced by Organized retail
- To find out the facilities required by customers from organized retail
- To present certain suggestions for the growth of organized retail in India.

CHALLENGES OF INDIAN ORGANIZED RETAILING

The Indian organized retail sector is facing lot of challenges which is restricting the growth of retailing and reaching to its full potential. The major challenges faced by Indian organized retail sector are mentioned herein below:

- 1) **Lack of Efficient Distribution Networks:** India is lacking a national level distribution networks and hubs. In rural areas the supplier network is fragmented which lead to multiple levels of product handling.
- 2) **Talent Shortage:** The retail sector is facing a problem of talent shortage or we can say a problem of inadequate human resource. The inadequate availability of skilled personnel is a key bottleneck, with little help coming from government and academic institutions. There is hardly any systematic effort to train human resource for the retailing sector. The problem is extremely severe in middle management levels However, now few



management institutes are offering retail management programmes to equip the manpower for retail industry.

- 3) **Real Estate Hurdles:** Out-of-date and user unfriendly land laws prevent the much needed growth in real estate development which is a significant part in the retail growth in the country.
- 4) **Limited Consumer Insights:** In India we have limited knowledge about consumers and shoppers across categories. In India we have no scientific research carried out regarding the consumer behaviour. Advanced countries have a consumer confidence index that measures consumer sentiment on various business and environmental issues. In India there is a limited data regarding the consumption patterns.
- 5) **Inadequate Utilities:** When we compare with developed countries, India is lacking far behind in terms of basic infrastructure such as power, communication, and transport. This creates difficulty in sustaining retail operations across the large geographical spread of country.
- 6) **Taxation Hurdles:** The tax structure in India is still complicated-both direct and indirect taxes. Non-uniform VAT regimes across states lead to differential pricing of goods and multiple taxation formats for the same goods in different states. This creates challenges for retailers.
- 7) **Lack of retail space:** Another major constraint that growth of organized retail can expect is availability of quality of retail space. This is one of the biggest challenges which are faced by the Indian organized retail sector. Real estate prices are going high due to increasing demand from the retailers; it is posing a challenge to its growth.
- 8) **Policy related hurdles:** The policy environment in India is complex, creating challenges for growth and establishment of new retail business.
- 9) **Supplier Base:** with most of the supplier base in India geared to cater to the small scale industry and low farm holding on an average per farmer in India, large supermarket and hypermarket chains will find it highly challenging to identify sources of supply that provide them benefits of economies of scale, quality and consistency in offerings.
- 10) **Lack of government incentives:** The retail sector has not yet got the status of industry. That's why industry specific incentives have not passed on to the retail sector. As government incentives are lacking in this sector, investors doesn't show much interest in retailing. Also financing from banks doesn't come easily, this leads to extremely high interest rates for retail pushing up the capital cost.
- 11) **Lack of Mall Culture:** In India, majority of consumers purchase their daily requirements from kirana stores located in a nearby area. Very scanty percentage of consumers goes to



malls for shopping. These kirana stores or we can say the unorganized retail sector poses a stiff competition to the organized retail sector.

- 12) **Intrinsic complexity of retailing:** A lot of intrinsic complexity of retailing is prevailing in the sector such as rapid price changes, threat of product obsolescence and low margins.
- 13) **IT Infrastructure Hurdles:** For managing modern supply chains, reliable Information Technology infrastructure is very necessary and India faces a big problem in this area as the rural areas have limited IT infrastructural facilities.
- 14) **Underdeveloped Supply Chain:** The Indian retailing lacks quality logistics infrastructure which hinders the growth of retailing activities.

The above mentioned challenges no doubt posing great problems to the retailing in India, but we have to overcome with these problems and challenges than only the Indian retail sector will grow.

INDIA RETAIL REFORMS

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers. The government of Dr Manmohan Singh, former prime minister, announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalisation reform passed by an Indian cabinet in years;
- Single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- Both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- All multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;
- Multi-brand retailers must have a minimum investment of US\$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers;
- The opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India



have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

The opening of retail industry to global competition is expected to spur a retail rush to India. It has the potential to transform not only the retailing landscape but also the nation's ailing infrastructure

RESEARCH METHODOLOGY

Research Type	: Exploratory
Type of Sampling	: Convenience Sampling
Sampling Unit	: Organized Retailers
Sampling Universe	: City Moradabad, Uttar Pradesh
Sample size	: 100 Organised retailers
Data Type	: Primary as well as Secondary Data
Data Source	: Survey through questionnaire
Tools	: Mean scores has been taken on a five point Likert scale.
Scope of the study	: The scope of study is related to organized retail in city Moradabad (Uttar Pradesh). The scope of the research shall be in reliance with the methods and instruments of research used in this study. Special attention has been given to carry out the research in a manner such that it contributes to the overall study of use of organized retail for shopping. Opinion of various experts in Moradabad city of Uttar Pradesh has been taken about the trend towards organized retailing in the city. Their views have been incorporated in this paper. The paper also takes the references of various articles written by various experts on retailing.

ANALYSIS AND INTERPRETATION

(A) GENERAL DETAILS

Questions were asked from the respondents about their product line and layout in their stores (organized retail). We get the following data:

Table 1: Descriptive Details of Retailers

S. No.	Factors	Variables	No	of	Total
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			Respondents	
1	Product Line	Food and grocery item	70	Many stores dealing in more than one product line
		Apparel and accessories	60	
		Consumer durables and electronics	33	
2	Layout and interiors of the store is decided	By Yourself	56	100
		By Company	40	
		By Both	4	
3	Layout and Interiors of the store have impact on sales/consumer buying	Always	72	100
		Mostly	22	
		Sometimes	6	
		Rarely	0	
		Never	0	

Table 2: Facilities provided by retailers to customers or planning in near future

S. No.	Services/Facilities	Using	Planning to use	Not suitable
		No. of Respondents	No. of Respondents	No. of Respondents
1	Wide variety	40	58	2
2	Low prices	65	35	0
3	Accepting credit/debit cards	61	35	4
4	Computerized billing	77	20	3
5	Membership/card system	15	73	12
6	Better & free parking	10	40	50
7	Home delivery	35	10	55
8	Air-conditioned	88	12	0
9	Food zone	12	45	43
10	Promotional scheme	24	56	20
11	Wash rooms	16	44	40



12	Trial rooms	58	12	30
13	Baby crushes/toys	10	15	75

(B) PERCEPTION OF THE RESPONDENTS

(I) Regarding facilities preferred by their customers

A five point Likert scale has been used to find out the perception of the organized retailers regarding their customers.

5 = Strongly Agree 4 = Somewhat Agree 3 = Neither agree nor disagree
2 = Somewhat Disagree 1 = Strongly Disagree

We get the following average data as perceived by organized retailers:

Table 3: Facilities preferred by customers of organized retail

S. No.	Services	Mean score
1	Wide variety	4.8
2	Low prices	4.9
3	Accepting credit cards	3.6
4	Computerized billing	3.5
5	Membership/card system	2.4
6	Better & free parking	4.2
7	Home delivery	3.4
8	Air-conditioned	3.1
9	Food zone	2.6
10	Promotional scheme	4.3
11	Wash rooms	3.6
12	Trial rooms	4.6
13	Baby crushes/toys	2.1

(II) Regarding problems faced by organized retailers while operating their stores

A five point Likert scale has been used to find out the perception of the organized retailers regarding problems faced by them in operating their stores.

5 = Strongly Agree 4 = Somewhat Agree 3 = Neither agree nor disagree
2 = Somewhat Disagree 1 = Strongly Disagree

We get the following average data:

Table 4: Problems arising while operating retail store



S. No.	Problem Faced	Mean Score
1	Technology availability, adoption and feasibility	3.6
2	Internal logistic system	2.5
3	Non - availability of skilled workforce	3.9
4	Shop lifting, theft	1.5
5	Understanding customers (behavior and loyalty)	3.1
6	Inefficient distribution channel	4.2
7	Delay due to lack of infrastructure (Roads & Traffic, Railways, Airport)	4.8
8	Power supply	4.6
9	Land & Rental rates	4.7
10	Competition from un-organized sector and e-commerce websites	4.9
11	Cost of operation	4.2

FINDINGS OF THE STUDY

The researchers come across the following findings:

- 1) Regarding the product line of the retailers many of them are running multi-brand stores
- 2) Layout and interiors of the store is generally decided by the retailers, but many times company insists the layout as per its specifications.
- 3) Many retailers believe that layout and interiors of the store have impact on sales/consumer buying. They try to make the layout as attractive as possible.
- 4) Nearly all the retailers feel that if they provide good quality services and facilities to their customers then it will lead to the growth of organized retail in India. Facilities such as wide variety of goods in stores, cheap prices, accepting credit/debit cards as an alternative payments, better parking facilities, computerized and speedy billing, promotional schemes, etc lead to increased sales. Majority of retailers are providing these services to their customers and those who are not providing them are trying their level best to provide these facilities in near future.
- 5) Regarding the facilities preferred by customers of organized retailers as perceived by retailers shows that customers first prefers wide variety of goods, low prices, better parking and promotional schemes and trial rooms in apparel and accessories stores which majority of retailers are providing to attract more and more customers. Also customers prefer washrooms in big stores as well as different modes of making payments such as credit and debit cards apart from paying cash.



- 6) During our study we come across many retailers who are facing lots of problems in running or operating their stores. Their major problems include Technology availability, adoption and feasibility, Non - availability of skilled workforce, Land & Rental rates, power supply, cost of operation, Competition from un-organized sector and e-commerce websites, Delay in getting supply due to lack of infrastructure and cheap transportation
- 7) Consumers have definitely gained from organized retail on multiple counts.
- 8) Overall consumer spending has increased with the entry of the organized retail.
- 9) While all income groups saved through organized retail purchases, lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers.
- 10) Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures.
- 11) Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, 'adopting' small retailers, and setting up dedicated teams to deal with modern retailers.
- 12) Entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy.
- 13) To become a truly flourishing industry, retailing in India needs to cross the following hurdles:
 - a) Regulations restricting real estate purchases, and cumbersome local laws.
 - b) Taxation, which favours small retail businesses.
 - c) Absence of developed supply chain and integrated IT management.
 - d) Lack of trained work force.
 - e) Low skill level for retailing management.
 - f) Lack of Retailing Courses and study options
 - g) Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.
 - h) Automatic approval is not allowed for foreign investment in retail.

SUGGESTIONS

The researchers present the following suggestions:

1. The Research indicates that the organized retailers should take effective steps to improve their billing as most of consumers complained about long queues for billing.
2. Organized retail outlets may start home delivery to cater to the needs of consumers
3. A comprehensive credit scheme may be initiated to increase sales potential.



4. The sales personnel may be educated to portray courteous behaviour to make consumers shopping more effectual.
5. As most of the respondents who visit shopping malls are young which are attracted towards branded products at reasonable prices and fixed prices but try to avoid bargaining. So organized retailers must ensure that there is availability of branded products with minimal need of bargaining.

CONCLUSION

Retailing provides a vital link between producer and consumer in any economy. Retail in India is most dynamic industry and represents a gigantic opportunity for retailers, domestic as well as international. Modern retailing is not a problem to traditional stores as most of the consumers never stopped visiting kirana stores. They strongly agreed on coexistence of both is required. Their frequency of going to kirana store is reduced. Modern retailing has miles to go in India. The growth of modern formats has been much slower in India as compared to other countries and the development of this sector depends on the presence of regulatory and structural constraints. New Indian Government has to take care about the existence of organized retail stores in India and they have to take measures to overcome the challenges. The day is not far away when the fast growth of organized retailing can be possible in India.

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