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EMERGING DIMENSIONS OF RETAILING IN INDIA

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ABSTRACT

The Indian retail sector is at an inflection point, with organized retail poised for an approximately 35 per cent compounded annual growth rate (CAGR) for the next few years. However, valued at around USD 320 billion, the Indian retail sector is still relatively small by global standards. But India is catching up and catching up fast. For two years in a row, A.T. Kearney has ranked India at the top of the Global Retail Development Index. Several of the major Indian conglomerates have announced and are in the process of implementing major retail projects (Reliance, AV Birla Group, Tata, etc.), existing retailers continue to experiment with new formats and concepts (Pantaloon, Shopper's Stop, etc.), many of the multi-national retailers are pacing the sidelines and evaluating different ways to participate, and mall development continues at a staggering pace What lies behind this euphoria is an omnipresent confidence in the ability of organized retail to grow along with the ongoing wealth generation amongst the middle class in India. The consumer class in India is estimated at 400 million people with a rising disposable income. About 29 per cent of the population is now urban, compared to 26 per cent in 1991, and over 50 per cent of the population is below the age of 24, and faces a job market more resilient than it is has ever been before. The Present paper analyse the causes of retail Growth in India.

INTRODUCTION

Indian consumerism, until the early 1990s remained a point of academic discussion due its immense potential. Similarly, access to cheaper credit and increased disposal incomes to enjoy their aspirations for private homes, cars, and a plethora of other consumer durables was a distant dream. This however, has changed dramatically over the past decade. The

Indian economy has evidenced an unprecedented resurgence, with the GDP growth averaging close to 8% per annum placing India amongst the fastest growing economies in the world. This growth has meant an empowerment of the consumer. The transition from a protected economy to market driven regime is apparent as suspicions regarding competition from global players dissipate progressively. With domestic industries gaining confidence in their abilities, competition is no longer the deterrent that it had been. The retail landscape of the country is changing at a rapid pace with malls and multiplexes mushrooming in all major cities. In fact, having reached a substantial capacity at Tier-1 locations, the organized retail revolution is now percolating to Tier II and III cities. Retail has clearly been witnessing a transformation from neighborhood-shopping to the concept of malls and family entertainment centers. Entertainment and experience are becoming integral parts of shopping. Global industry analysts have often confirmed the country's potential as one of the most attractive emerging retail destinations in the world. It remains to be seen whether this promise is translated to add further depth to the Indian economy.

Causes of interest for Global retailers in India

India, currently, is the hottest retail destination. The Indian retail sector is highly fragmented with 96% of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail is at a very nascent stage though attempts are being made to increase its proportion to 15-20% by the year 2010 bringing in a huge opportunity for prospective new players.

“Retail Revolution” is just beginning in India. This presents a unique opportunity in time to organize retailers in the western world to leverage and scale-up in India utilizing their well defined and proven processes, procedures and controls the supply chain, procurement systems and understanding of global trends & fashion will enable them to succeed. The main attractions of India as a retail destination are following:

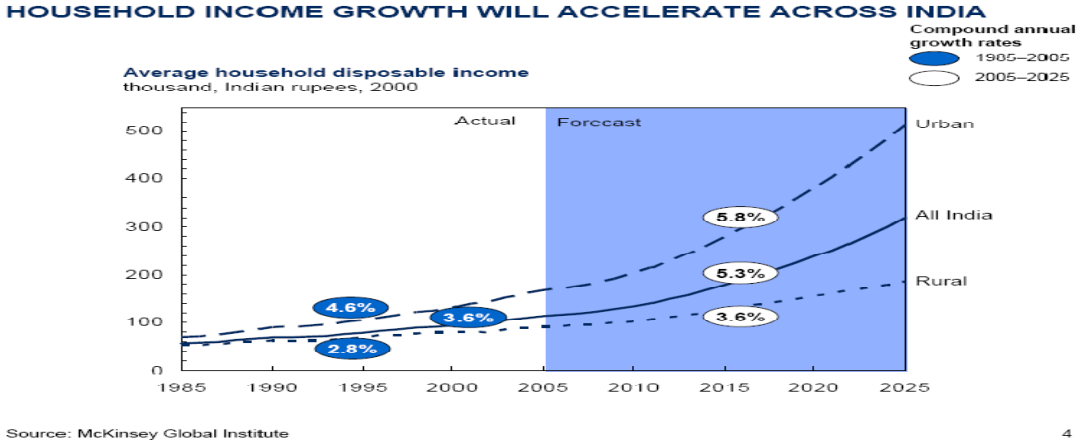
1. RAPID ECONOMIC GROWTH

The fast and furious pace of growth of the Indian economy is the driving force for Indian consumerism; with the Indian consumers confident about their earnings and are spending a large portion of their high disposable incomes. Projections by analysts suggest that India has the potential to be labeled the fastest-growing economy and outpace the developed economies by 2050. Analysts predict India to sustain an average GDP growth rate of 5 per cent till the mid of this century, with India projected to outpace the other developed economy markets by 2050. India’s GDP stands at the trillion dollar mark, and with a sustained growth rate of over 8%, it is confidently poised to be the leading centre of global economy by 2020. GDP of India is expected to be around US$ 1.1 trillion by 2010 and would reach a staggering US$ 37 trillion by 2050 which would make it the third largest economy in the world. This would mean that India’s GDP will increase close to US$ 1 trillion on an average year-on-year over the next 40 years. This fast pace of GDP growth is driving Indian consumerism, Indian consumers today are more confident and willing to splurge owing to increased income levels. India's consumer market will be the world's fifth largest (from twelfth) in the world by 2025 and India's middle class will swell by over ten times from its current size of 50 million to 583 million people by 2025, predicts McKinsey.

2. INDIAN INCOMES WILL ALMOST TRIPLE OVER THE NEXT TWO DECADES

Forecasts for India's real GDP growth rate over the coming two decades generally range between 6 and 9 percent per year. Mckinsey Report assumes real compound annual growth of 7.3 percent from 2005–2025, a marked acceleration from the 6 percent growth of the previous two decades. According to report this optimism is justified because of the substantial scope for continued productivity increases in Indian businesses, the growing openness and competitiveness of the Indian economy, and favorable demographic trends. The analysis shows that if India does in fact achieve this growth path over the next 20 years, Indian income levels will almost triple. Average real household disposable income will grow from 113,744 Indian rupees in 2005 to 318,896 Indian rupees by 2025, a compound annual growth rate of 5.3 percent (Fig 1). This is significantly more rapid than the 3.6 percent annual growth of the past 20 years—and with the exception of China, much quicker than income growth in other major markets. For example, US average real household income increased at a compound annual growth rate of 1.5 percent over the past two decades; for Japan the figure was 0.25 percent. This estimated jump in household income is driving international retailers to India.

FIG1: PROJECTED HOUSEHOLD INCOME GROWTH

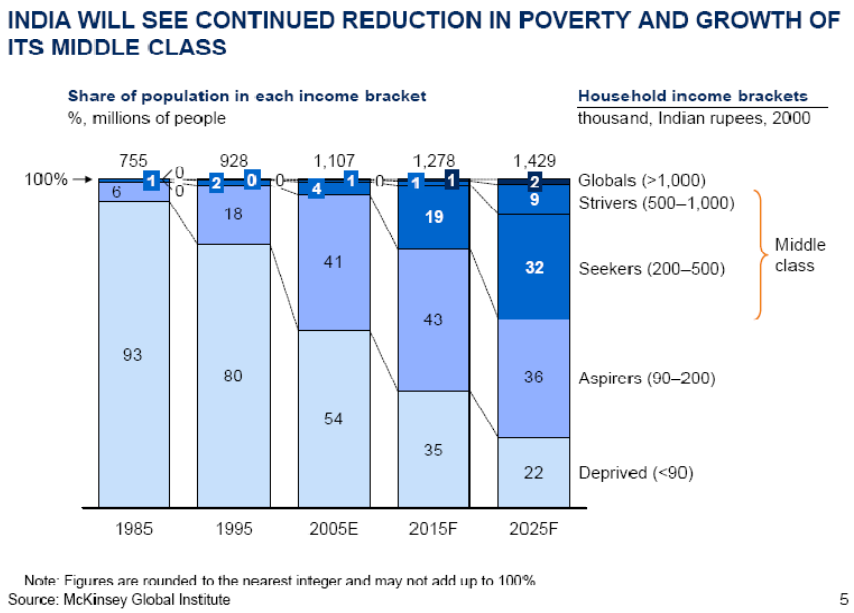


3. RISING INCOMES WILL LIFT 291 MILLION OUT OF POVERTY AND CREATE A 583 MILLION-STRONG MIDDLE CLASS

India's rising real incomes have already had a significant impact on poverty reduction. In 1985, 93 percent of the population had an annual household income of less than 90,000 Indian rupees, or less than $1,970 per year or $5.40 per day—an income bracket categorized as deprived. By 2007 this had dropped by about two-fifths to 54 percent of the population, with the biggest fall occurring since 1995. Thus more than 103 million people moved out of desperate poverty in the course of one generation—not just in India's urban centers but in its rural areas as well. This is all the more impressive given that India's population grew by 352

million during this period. So, in effect, there are 431 million fewer poor people in India today than there would have been if poverty had remained at its 1985 rate. In short, India's economic reforms, and the increased growth that has resulted, have been the most successful anti-poverty program in the country's history. The poverty reduction and increasing number of Global, Strivers and Seekers and declining Aspirers and Deprivers (Fig: 2) signifies increasing number of people interested in quality products offered by international retailers

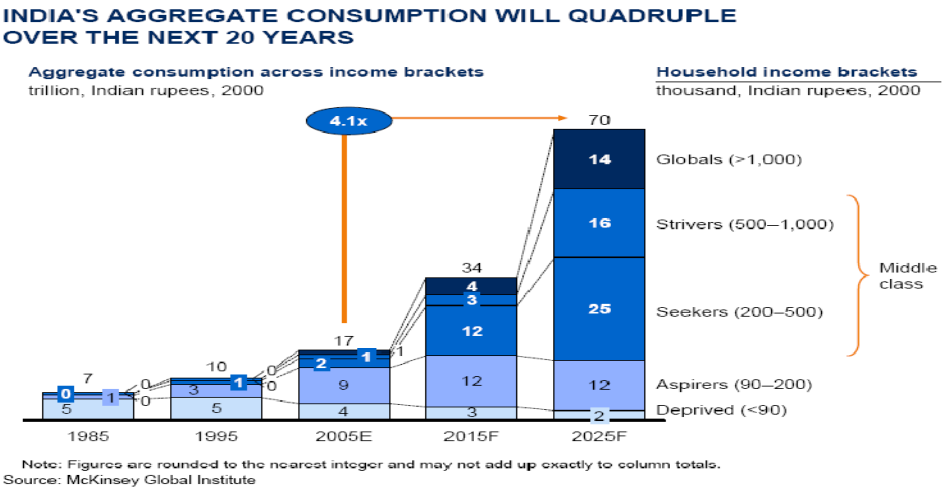
FIG: 2: PROJECTED POVERTY ESTIMATES FOR INDIA



4. INDIA WILL BECOME THE WORLD'S FIFTH LARGEST CONSUMER MARKET BY 2025

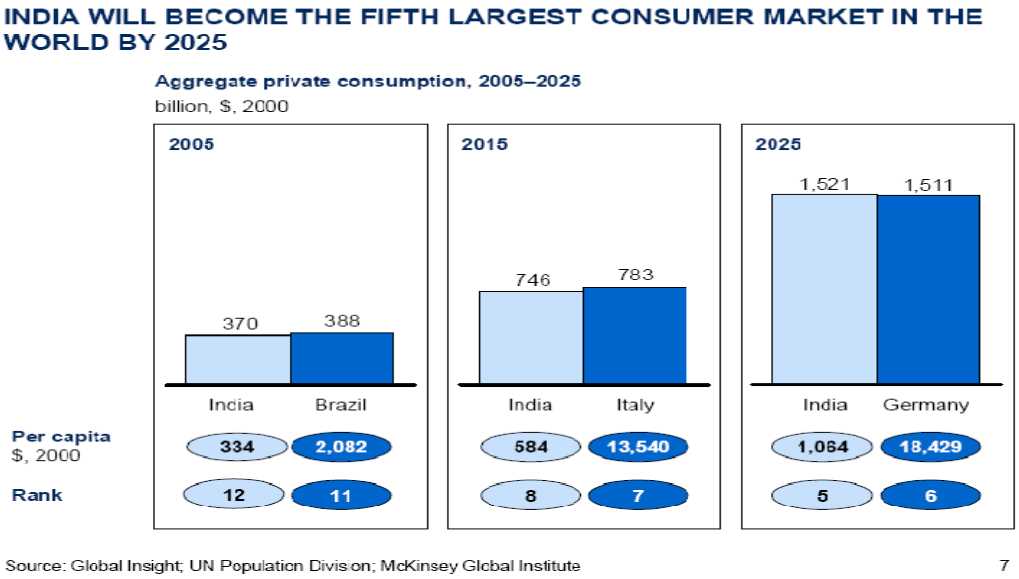
The combination of rapidly rising household incomes and a robustly growing population will lead to a striking increase in overall consumer spending. Mckinsey report fore-cast that aggregate consumption in India will grow in real terms from 17 trillion Indian rupees today to 34 trillion by 2015 and 70 trillion by 2025—a fourfold increase (Fig:3).

FIG: 3: PROJECTED CONSUMPTION ESTIMATES FOR INDIA



This soaring consumption will vault India into the premier league among the world's consumer markets. Today its consumer market ranks 12th. By 2015 it will be almost as large as Italy's market. By 2025 India's market will be the fifth largest in the world, surpassing the size of Germany's consumer market

FIG: 4: GROWING CONSUMER MARKET

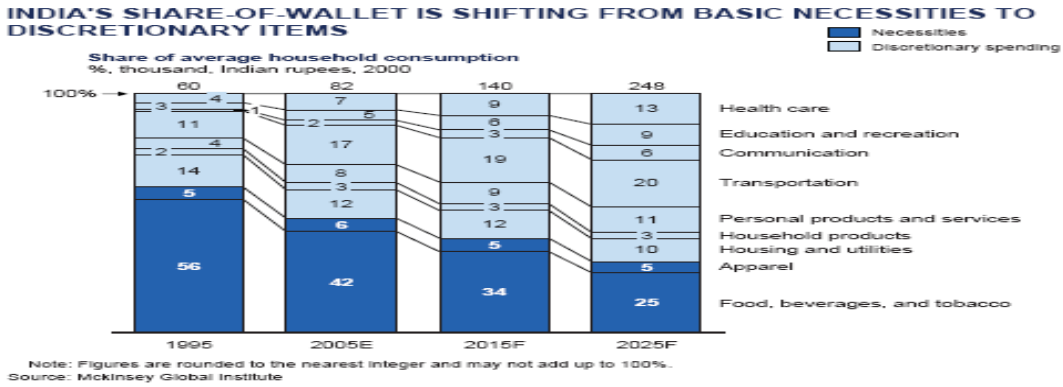


5.

DISCRETIONARY SPENDING WILL ACCOUNT FOR 70 PERCENT OF ALL SPENDING BY 2025

As Indian incomes rise, the "share-of-wallet" of consumer spending will change significantly too. We have projected spending patterns in nine major consumption categories and 30 subcategories. Mckinsey report show that all categories will experience growth in absolute terms, but some will grow much faster than others. The percentage of Indian spending on discretionary items will grow dramatically, while spending on necessities will grow more slowly (Fig;5)

FIG: 5: CHANGING CONSUMPTION PROFILE



Today the largest categories of Indian spending are food, beverages, and tobacco (FB&T); transportation and housing. By 2025 FB&T will still be the biggest category, although its share will have dropped from 42 percent to 25 percent. Transport and health care will be the second and third biggest markets respectively. Communications, which accounts for only 2 percent of spending today, will be one of the fastest expanding categories with growth of over 13 percent a year (on an aggregate basis). All these categories are poised to see multiple increases in investment by international retailers in coming years.

6. POTENTIAL UNTAPPED MARKET

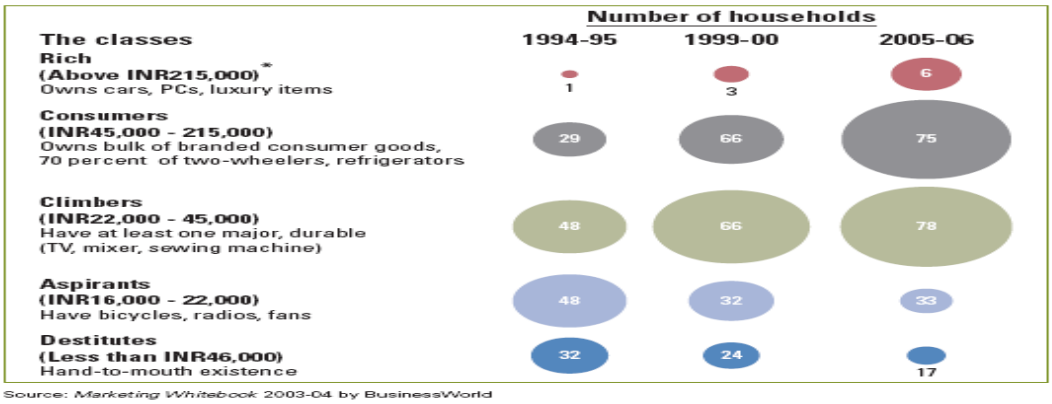
India ranks first, ahead of Russia, in terms of emerging market potential and is deemed a "Priority 1" market for international retail. Organized retail penetration is on the rise and offers an attractive proposition for entry of new players as well as scope for expansion for existing players. India is home to a large base of consumers with annual incomes ranging from US$ 1,000 – US$ 4,700, comprising of over 75 million households. A steadily rising percentage of rich and super rich population and impressive disposable incomes offers a spectrum of opportunities, spanning from rural retailing to luxury retailing. The impressive retail space availability and growing trend of consumerism in the emerging cities and small towns add to the market attractiveness.

Pantaloon Retail India Limited, one of India's retail giants captures a mere 0.3 per cent of total market; compared to Tesco Plc, which captures 14.3per cent of England's market and Wal-Mart which captures 20 per cent of USA's market; giving an insight into the large untapped market potential.

7. CHANGING MAP OF INCOME CLASSES

India has 209 million households, of which the 6 million classified as 'rich' have annual incomes of over USD 4700 and 75 million classified as 'consuming' have annual incomes between USD 1000-4700. Over half of these 'rich' families live in Delhi, Mumbai and Bangalore, and spend around USD 18 billion annually. 62% of the market for premium products in India is also concentrated in these three cities. 85% of India's retail market is also concentrated in the country's 8 largest cities. An estimated 1 million households at the top of India's income map constitute the 'super-rich' in the country. Growing by 20% every year, this segments' buying behavior is in line with its corresponding international segments. While this segment is worth targeting for high-end premium products, it is not the key driver of the organized retail sector. The real driver of the Indian retail sector is the bottom 80% of the first layer and the upper half of the second layer of the income map (see 'Map of India's income classes' below). This segment of about 40 million households earns USD 4,000- 10,000 per household and comprises salaried employees and self-employed professionals. This segment is expected to grow to 65 million households by 2010 and is currently the key driver behind explosive growth in passenger car sales(USD 5 billion in 2004) and mobile phone penetration (over 70 million).The top 6 Indian cities - Mumbai, Delhi, Chennai, Kolkata, Bangalore and Hyderabad - are the darlings of India's exploding economy. They represent 6% of the population, but contribute 14% of India's GDP; they are the centers of business, finance, politics and the emerging sunrise industries such as IT and pharma, which have put India on the global map. These cities are also the barometer of India's economic development and most foreign investors have flocked here.

FIG.6 MAP OF INDIA'S INCOME CLASSES



Source: *Marketing Whitebook* 2003-04 by BusinessWorld

8. COST EFFECTIVENESS

The most attractive component of India's value proposition is its cost attractiveness. Existing players are increasingly turning to Tier II and Tier III cities for retail establishments and for manpower sourcing. These cities offer significant cost advantage in the form of availability of low-cost skilled human resources. With well-educated small town graduates turning to the urban cities for employment, these graduates are ideal candidates for sales and marketing executive roles in modern organized retail formats.

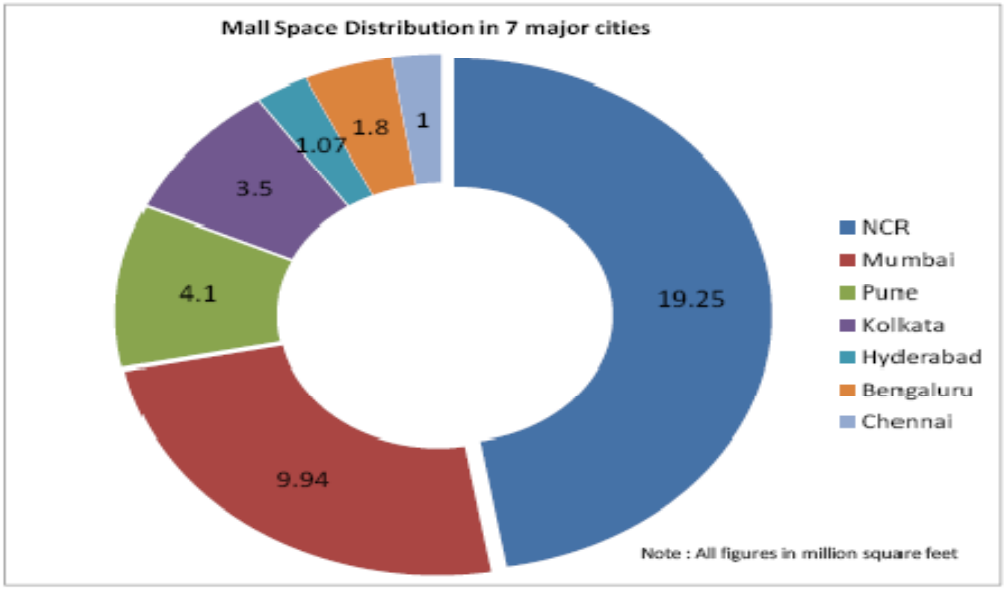
Indian labor is immensely diverse and skilled. As opposed to other Asian and European countries labor costs in India are among the lowest. In the existing scenario, the combination of India's high productivity and wage structure is hard to beat

9. THE RISE OF MALL CULTURE

From the setting up of India's first mall in 1999, there has been a steady proliferation of malls, a trend specially pronounced in the urban cities. Total number of malls was estimated at 200 in 2005-06 and projected to increase to 715 by 2015.

The mall mania has bought in a whole new breed of modern retail formats across the country catering to every need of the value-seeking Indian consumer. An average Indian would see a mall as a perfect weekend getaway with family offering them entertainment, leisure, food, shopping all under one roof.

FIG:7: RISING MALL SPACE



Source: "Retail Scene in India: An Overview and Opportunities", www.chillibreeze.com

10. CHANGING FACE OF INDIAN CONSUMERISM

Favorable demographics, combined with increasing disposable incomes, are progressively changing the face of Indian consumerism. With the economy opening new vistas of employment and with employers offering attractive compensation packages and perks, the pool of Indian skilled professionals are boasting of higher disposable incomes. From frugal spending to frenzied shopping, India's swelling middle class is redefining lifestyle patterns with adoption of western values and growing brand consciousness. The average household disposable income has doubled since 1985, with analysts predicting a similar trend for the next two decades.

The thriving services sector growth has handed young India a bulging wallet and a penchant for luxury products. The new found freedom to shop at plush malls and stores for expensive gadgets like mobile phones and laptops has fuelled the growth of organized retail in India.

The Indian consumer is gradually moving from the local "kirana" shopping to "Mall Hopping". With a number of domestic and international brands available in stores in metros and smaller cities and with a wide range of product offerings from food and grocery to furniture and fixtures, the Indian consumer is fast embracing modern retail. With the country's income pyramid changing dramatically, there has been a definite shift from the "saving" tendency to the "spending" attitude. Increased consumer exposure to the latest trends and brands driven by the mass media is contributing to the soaring retail revenues. There has been a marked increase in the number of new entrants in the retail sector with player revenues increasing across all the retail segments.

11. INCREASING URBANIZATION

India's urban population is estimated at 286 million, constituting 27.8 per cent of the total population of 1,029 million as on 2001. The urban population is projected to increase to 468 million, constituting 33.4 per cent of the total projected population of 1,400 million by 2010. With over 34 cities having a population of over 1 million, this number is projected to grow rapidly. Urban population has grown over five times over the past five decades, with India's urban population being second largest in the world, in numerical terms, next only to China. Delhi is the most urbanised city in India, with about 93 per cent of the population concentrated in urban areas. Class I cities (cities with population greater than 1,00,000) have an average concentration of 73.7 per cent urban population, with the share increasing rapidly. An increase in the number of young employed executives and the increasing population of working women is stimulating growth of modern retailing in urban areas.

12. EASY AVAILABILITY OF CREDIT

Higher penetration and availability of credit facilities and increasing credit card and debit card subscriptions have further fuelled the growth of retail sector. Most of the banks and financial institutions have increased their range and amount of retail credit and loans service offerings. The average exposure of banks to retail loans was at 25.5 per cent of total loans in 2008-09

Increased subscription of credit cards in the last 3-4 years indicates a definitive change in the consumer habits of the Indian population. The number of credit cards issued was at 16.6 million in 2008-09, growing at a compound annual

growth rate of 28 per cent in the last 6 years. The number of debit cards have increased manifold and touched 53.7 million by 2008-09. The growing acceptance of plastic money across small and medium sized stores and retail outlets has stimulated the rapid growth in issuance of credit cards.

Increasing Technology adoption

With modern retail store formats growing players are increasingly deploying advanced Information Technology tools for managing their supply chain, warehousing and logistics requirements. Retail sector constituted 8 per cent of the IT export revenues in 2005-06. Apart from the industry giants, the small scale retailers are also embracing IT solutions to optimise their operational efficiencies. Big league IT firms like IBM India, Oracle and SAP are developing solutions for smaller retailers' requirements.

13. **REGULATORY SCENARIO**

The Government is progressively undertaking reforms and liberalizing the retail sector; thereby attracting significant foreign investments. The regulatory and supervisory policies are being reshaped and reoriented to meet the new challenges and opportunities in this sector.FDI up to 51 per cent is allowed, with prior Government approval for retail trade in 'Single Brand' products with the objective of attracting investment, technology and global best practices and catering to the demand for such branded goods in India. Relaxation of FDI restrictions are being vigorously pursued by the business and trade coalitions and are expected to fall in place over the next 3-5 years. The Indian Government restrictions on the FDI are creating ripples among the international players like Wal-Mart, Tesco and many other retail giants struggling to enter Indian markets. As of now the government has allowed only 51% FDI in the sector to `one-brand' shops like Nike, Reebok etc. However, other international players are taking alternative routes to enter the Indian retail market indirectly via strategic licensing agreement, franchisee agreement and cash and carry wholesale trading (since 100% FDI is allowed in wholesale trading).

CONCLUSION

The landscape of retail industry in India has been transformed from a fragmented, family run industry to an organized and professionally managed business in recent years. We as professionals and participants on the Indian stage, have witnessed this sunrise industry evolve and grow out of the shadows. From a rather uncertain beginning in late 1990s (paradoxically coinciding with the dotcom boom, which since deceased in an inauspicious

manner) the retail industry has gained in stature and momentum. What assumes critical importance, therefore, is the way the initial organic burst is channelized into a well coordinated growth. The stepping in of the government could not have been at a more opportune moment for the industry.

It needs to be clearly understood that FDI in retail is not means to ensure short term rewards to the national economy. Moreover, whether it possesses the intensity to alter the fundamental fabric of Indian retailing systems also remains debatable. However, it will definitely ensure that the wheels of the nascent Indian retail revolution are set in motion.

As indicated throughout this chapter, India does not lack in market size or essential ingredients the opportunities for the retailer and consumer alike are large. With the recent developments, it has become evident that this set of opportunities can only become larger in years ahead.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. The chapter gives a glimpse of the 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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