

CHAPTER-1

INTRODUCTION

Economic development of a country is directly related to the level of industrial growth. The expansion of industrial sector leads to a greater utilization of natural resources, production of goods and services, creation of employment opportunities and improvement in the general standard of living. India has also been striving to develop the country's industrial base over since independence. It has framed various policies aimed at development of industries in the public and private sectors. Special emphasis has been laid on small-scale industries. Small scale industries play a key role in our planned development with its advantages of low investment, high potential for employment generation, diversification of the industrial base and dispersal of industries to rural and semi urban areas leading to development for all.

Days have gone for malpractices, right now people want to have transparency and social security for which they may sacrifice their pleasing hours of their life. Each institution always try to provide better things for the same. Every person wants to have a right to fulfil his basic requirements; they are not only roti kapda or makan but health, insurance as well as education also. As soon as Indian economy is growing customer satisfaction has also increased due to spread of retail industry. This industry

is flourishing with the help innovation and technology leading to increase in GDP also.

India started its Retail Journey since ancient time. In Ancient India there was a concept of weekly HAAT, where all the buyers and sellers gather in a big market for bartering. It takes a pretty long times to and step to shape the modern retail. In between these two concepts, it may be observed between ancient retail concept and the modern one there exist modern Grocery/ mom and pop shops or Baniya ki Dukan. Still it is predominating in India So the Indian retail industry is divided into two sectors- organized and unorganized. The Indian retail industry is now beginning to evolve transformation that has swept other large economies. There is a vast change in Indian retail, the liberalization of the consumer goods industry initiated in the mid-80's and accelerated through the 90's has begun to impact the structure and conduct of the retail industry¹. The concept retail, which includes the shopkeeper to customer interaction, has taken many forms and dimensions, from the traditional retail outlet and street local market shops to upscale multi brand outlets, especially stores or departmental stores. Hence, focusing on two aspects of retail marketing i.e. store retailing and non-store retailing. Store Retailing as the departmental store, which is a store or multi brand outlet, offering an array of products in various

¹Rustagi, P (2010) Employment trend for women in India. International labour organization Asia Pacific working paper series.(1), pp 1-40.

categories under one roof, trying to cater to not one or two but many segments of the society and Non store retailing as the direct selling, direct marketing, automatic vending. The most important debate concerning the implications for the expansion of the organized retailing in India revolves around whether it is going to have positive impacts on the economy as a whole as compared to the traditional unorganized form of retailing. It has overall positive impacts in terms of generating more number of employments, new diversified forms of employments, and improving the nature of retail employment. This form of retail sector is also looked upon as a huge sector having immense business opportunities for entrepreneurs and capital investors. Moreover, organized retailing is considered to be efficient and apt to cater to the diversified and changing nature of the consumer demands in growing economies like India. The general benefits of organized retail also include improved supply-chain, improved marketability of farmer's produce and it is also expected that it will contribute to heightened economic activity. The extensive research brought me to conclude that departmental stores are soon emerging on the top priority lists, amongst the shopping spree in Mumbai, as they seem to derive immense pleasure as shopping is considered as a experience now rather than a task and exposure to variety under one roof in their extremely busy lives, when they don't have time for things. The organized retail food and grocery stores make constant efforts to induce customers to visit the

store by discount offers. Most of these stores believe in creating not just a marketing activity with its customers, but rather favour relationship building with him so as to convert first time customers into a client. They provide better parking facilities to customers and the facility to examine the product. They also offer a wide range of payment options to customers. India is currently the twelfth largest consumer market in the world. According to a study by McKinsey Global Institute, India is likely to join the premier league of the world's consumer markets by 2025 improving its position to the fifth. But this growth is not going to happen in smooth way. Any change always comes up with some friction and Indian retail sector is and will be witnessing the same friction. Indian retail sector is still in its nascent form if we consider its full potential. While most of the developed market of US and Europe and also some SE Asian emerging market economies have reaped the benefits of modern retail, India has not yet entered into advanced phase of modern retail forms. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, hand cart and payment vendors, and mobile vendors, the local Grocery shops, owner manned general stores, paan/beedi shops, convenience stores, hardware shop at the corner of your street selling everything from bathroom fittings to paints and small construction tools; or the slightly more organized medical store and a host of other small retail businesses in apparel, electronics, food etc. Small-store retailing has been

one of the easiest ways to generate self-employment, as it requires limited investment in land, capital and labour. It is generally family run business, lack of standardization and the retailers who are running this store they are lacking of education, experience and exposure. This is one of the reasons why productivity of this sector is approximately 4% that of the U.S. retail industry. Unorganized retail sector is still predominating over organized sector in India, unorganized retail sector constituting 98% (twelve million) of total trade, while organized trade accounts only for 2%. The road side hawkers and the mobile (pushcart variety) retailers².

1.1 DEFINITION OF RETAILING

Retail Industry, one of the fastest changing and vibrant industries in the world, has contributed to the economic growth of many countries. The term 'retail' is derived from the French word retailer which means 'to cut a piece off or to break bulk'. In simple terms, it implies a first-hand transaction with the customer.

Retailing can be defined as the buying and selling of goods and services. It can also be defined as the timely delivery of goods and services demanded by consumers at prices that are competitive and affordable³.

Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design

²India Brand Equity Foundation (2013).Retail Industry in India. September. November 7, 2013.

³Michael Page (2013).The Indian Retail Sector Report 2013. November 7, 2013.

stage of a product or offering, to its delivery and post-delivery service to the customer. The industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today. All middlemen basically serve as purchasing agents for their customers and as sales specialists for their suppliers. To carry out those roles, retailers perform many activities, including anticipating customer's wants, developing assortments of products, acquiring market information and financing. It is relatively easy to become a retailer. No large investment in production equipment is required, merchandise can often be purchased on credit and store space can be leased with no 'down payment' or a simple website can be set up at relatively little cost. Considering these factors, perhaps it's not surprising that there are just over a 6 million retail outlets operating across the Indian cities from north to south and from east to west. This large number of outlets, many of which are trying to serve and satisfy the same market segments, results in fierce competition and better values for shoppers. To enter retailing is easy; to fail is even easier! To survive in retailing, a firm must do a satisfactory job in its primary role - catering to consumers. Rama Subramaniam the former head - retail segment Sponsors described a successful Retailer as a "merchant who sells goods that won't come back to customers who will". Of course, a retail firm also must fulfil its other role - serving producers

and wholesalers. This dual role is both the justification for retailing and the key to success in retailing⁴.

The everyday definition of retail can be described as the act of selling of goods and merchandise from a fixed location. In other words retailing is a distribution channel function where the retailing organization will buy products from certain manufacturers and then sell it directly to consumers. A retailer is a reseller from which a consumer purchases products. The origin of the word retail is considered to be from the French word 'retailer' which means to "cutting off, clip and divide" in terms of tailoring. To use the concept, retailing directly converts into the meaning that it is breaking of products in larger consignments into smaller packages for general consumption.

Basically, Indian retail industry may be divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, such as the local kirana shops, owner manned general

⁴ASA (2013). A Brief Report on Retail Sector in India, August, ASA and Associates chartered accountants, November 7, 2013.

stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc⁵.

Perhaps the concept of retail exists from the times of established currencies if not from the times when the barter system was prevalent. However, the irony of the Indian retailing industry is that even though it is one of the basic financial activities carried out in an economy, it is considered to be the newest when taken in the form of an organized sector in it-self. Retail industry can be broadly classified into two categories namely- organized and unorganized retail.

The pace of technology has also enhanced the growth of retail industry, it may be categorized as, 'embodied' or 'disembodied'. The former is identified with 'hardware' and consists of tools, machinery, equipment and vehicles, which together make up the category of capital goods. Disembodied technology is identified with 'software' and encompasses the knowledge and skills required for the use, maintenance, repairs, production, adaptation and innovation of capital goods. These are often called the 'know-how and then know-why of processes and products'.

Technological change does not affect all factors equally. When it does, it is considered neutral technical change. Otherwise, it may have a specific factor using or factor saving bias. The terms technological change and

⁵Subhadip Mukherjee (2011): Policies of Retail Sector of India and Other Selected Countries. UTMS Journal of Economics 2 (2): 171–180. April 5, 2013.

technical change are used interchangeably in the literature under review, both being indicators of a shift in the production function. It would have been useful to reserve the latter term for indicating change in techniques or processes. The terms technological progress and technical progress are synonymous with technological change and technical change respectively, all change being considered as being for the betterment for the society.

In the backdrop of emerging needs, new financial services need to address the challenges of technology up gradation and modernisation, marketing, finance, infrastructural facilities, venture capital, micro finance and factoring assistance. In the non-financial services, information dissemination, technical assistance, early warning, human resources development, environment management and quality consciousness are required more urgently than ever before. Globalisation of SMEs and their competitiveness in the global markets is a priority. Though Indian SMEs have achieved a measure of success, especially in sectors such as, garments, leather and leather products and gems and jewellery, among others, further heights can only be achieved by fostering international linkages between SME sectors of different countries. A concerted effort on the global scale is required to bring SMEs to the mainstream from the periphery and integrate them with the organised sector to enhance retail industry.

1.2 MEANING OF RETAIL

It may be discussed that Retail is the final stage of any economic activity. By virtue of this fact, retail occupies an important place in the world economy. In an attempt to understand the scope of the term retail, various definitions of the term have been examined.

In the view of Philip Kotler: "Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non-business use. A retailer or retail store is any business enterprise whose sale volume comes primarily from retailing.

Any organisation selling to final consumers whether it is a manufacturer, wholesaler or retailer is doing retailing. It does not matter how the goods or services are sold (by person, mail, telephone, vending machine or internet or where they are sold - in a store, on the street or in the consumer's home).

The North American Industry Classification System (NAICS) specifies that the retail trade sector comprises establishment primarily engaged in retailing merchandise, generally without transformation and rendering service incidental to the sale of merchandise.

The word retail is derived from the French, word retailer, which means to cut off a piece or to break bulk. A retailer may be defined, as a 'dealer or trader who sell goods in small quantities' or 'one who repeats or relates'.

Retailing thus may be understood as the final step in the distribution of merchandise, for consumption by the end consumers. Put simply, any firm that sells products to the final consumer is performing the function of retailing. It thus consists of all activities involved in the marketing of goods and services directly to the consumers for their personal, family or household use.

It is necessary to understand that in the complex world of trade today, retail would include not only goods but also services, which may be provided to the end consumer. In an age where the customer is the king and marketers are focusing on customer delight, retail may be redefined as the first point of customer contact.

1.3 THEORIES OF RETAIL DEVELOPMENT

The development retail can also be looked at from the theoretical perspective. No single theory can be universally applicable or acceptable. The application of each theory varies from market to market, depending on the level of maturity and the socio-economic conditions in that market.

The theories developed to explain the process of retail development revolve around the importance of competitive pressures, the investments in organisational capabilities and the creation of a sustainable competitive advantage, which requires the implementation of strategic planning by retail organisations. Growth in retail is a result of understanding market

signals and responding to the opportunities that arise in a dynamic manner.

Theories of retail development can broadly be classified as:

1. Environmental—where a change in retail is attributed to the change in the environment in which the retailers operate.
2. Cyclical—where change follows a pattern and phases can have definite identifiable attribute associated with them.
3. Conflictual—where the competition or conflict between two opposite types of retailers, lead to a new format being developed.

1.4 Environmental Theory

Darwin's theory of natural selection has been popularised by the phrase "survival of the fittest". Retail institutions are economic entities and retailers confront an environment which is made up of customers, competitors and changing technology. This environment can alter the profitability of a single retail store as well as of clusters and centers. The environment that a retailer competes in is sufficiently robust to squash any retail form that does not adjust.

Thus, the birth, success or decline of different forms of retail enterprises is many a times attributed to the business environment. For example, the decline of department stores in the western markets is attributed to the general inability of those retailers to react quickly and positively to

environmental change. Those retail institutions that are keenly aware of their operating environment and which react without delay, gain from the changes.

Thus, following the Darwinian approach of survival of the fittest, those retailers that successfully adapt technological, economic, demographic and legal changes are the ones that are most likely to grow and prosper. The ability to adapt to change, successfully, is at the core of this theory.

1.5 Cyclical Theory

The most well-known theory of retail evolution is The Wheel of Retailing theory. This theory described by McNair, helps us understand retail changes. This theory suggests that retail innovators often first appear as low-price operators with a low-cost structure and low profit-margin requirements, offering some real advantages, such as specific merchandise, which enables them to take customers away from more established competitors.

As they prosper, they develop their businesses, offering a greater range or acquiring more expensive facilities, but this can mean that they lose the focus that was so important when they entered the market. Such 'trading up' occurs as the retailer becomes established in his own right. This in turn, leaves room for others to enter and repeat the process. They then become vulnerable to new discounters and lower-cost structures that take their

place along the wheel. Scrambled merchandising occurs as the retailer adds goods and services that are unrelated to each other and the firm's original business so as to increase overall sales and profit margins. This is termed as the wheel of retailing⁶.

The theory of the wheel of retailing can be understood by taking the example of department stores, which started as low-cost competitors to the small retailers; they developed and prospered; then they were severely undercut by supermarkets and discount warehouses.

This theory does not explain the development of retail of all markets. In less developed markets, the introduction may not necessarily occur at a low price; here, introduction may occur at a high price.

Hollander⁷ was a key observer of retail evolution and he used the analogy of an orchestra comprised exclusively of accordion players to describe the dynamically shifting retail structure.

This so called 'accordion' effect describes how general store moved to specialise, but then widened their range of merchandise again a new classes of product were added. Hollander suggested that the players either have 'open accordions', representing general retailers with broad product range, or 'closed accordions', indicating a narrowing of the range, focusing on

⁶ "Variation on a Marketing Enigma". The Wheel of retailing theory. S. Brown. Journal of Marketing Management, Volume 7 (1991)

⁷ "Wheel of Retailing", Hollander. S. C., Journal of Marketing, V 48, (No. 3), 1960

specific merchandise. He suggested that at any point in time, one type of retailer would outnumber the other, but that the situation would continually change through the arrival and departure of different stores, this analogy illustrates the complexity of the retail scene and the way in which different attitudes towards successful retailing would come in and go at different times. The Accordion theory and the Wheel of Retailing are known as the cyclical theories.

1.6 Conflict Theory

Conflict always exists between operators of similar formats or within broad retail categories. It is believed that retail innovation does not necessarily reduce the number of formats available to the consumer, instead, it leads to the development of more formats. Retailing thus evolves through a dialectic process, i.e., the blending of two opposites to create a new format. This can be applied to developments in retailing as follows:

a. Thesis

Individual retailers as corner shops all across the country

b. Antithesis

A position opposed to the thesis develops over a period of time. These are the department stores. The antithesis is a "challenge" to the thesis.

c. Synthesis

There is a blending of the thesis and antithesis. The result is position between the "thesis" and "antithesis". Supermarkets and hypermarkets thrive. This "synthesis" becomes the "thesis" for the next round of evolution.

1.7 THE CONCEPT OF LIFE CYCLE IN RETAIL

The concept of product life cycle as explained by Philip Kotler⁸, is also applicable to retail organisations. This is because retail organisations pass through identifiable stages of innovation. Development, maturity and decline. This is what is commonly termed as the Retail Life Cycle.

Attributes and strategies change as institutions mature. The "Retail Life Cycle" is a theory about the changes through time of the retailing outlets. It is claimed that retail institutions show an "s-shaped" development curve through their economic life. The "s-shaped" development curve has been classified into four main phases:

1.8 The Retail Life Cycle

a. Innovation

A new organisation is born; it improves the convenience or creates other advantages for the final customers, which differ sharply from those offered

⁸ Marketing Management, Philip Kotler, Millennium Edition, p. 303.

by other retailers. This is the stage of innovation. where the organisation has few competitor . Since it is a new concept, the rate of growth is fairly rapid and the management fine-tunes its strategy through experimentation. Levels of profitability are moderate and this stage can last up to five years, depending on the organisation.

b. Accelerated Growth

The retail organisation faces rapid increases in sales. As the organisation moves to stage two of growth, which is the stage of development, a few competitors emerge. Since the company has been in the market for a while, it is now in a position to pre-empt the market by establishing a position of leadership. Since growth is imperative, the investment level is also high, as is the profitability. Investment is largely in systems and processes. This stage can last from five to eight years. However, towards the end of this phase, cost pressure tend to appear.

c. Maturity

The organisation still grows, but competitive pressures are felt acutely from newer forms of retailing that tend to arise. Thus the growth rate tends to decrease. Gradually, as markets become more competitive and direct competition increases, the rate of growth slows down and profits also start declining. This is the time when the retail organisation needs to rethink its

strategy and reposition itself in the market. A change may occur not only in the format but also in the merchandise mix offered.

d. Decline

The retail organisation loses its competitive edge and there is a decline. In this stage, the organisation needs to decide if it is still going to continue in the market. The rate of growth is negative, profitability declines further and overheads are high.

The retail business in India' has only recently seen the emergence of organised, corporate activity. Traditionally, most of the retail business in India was constituted of small owner-managed businesses. It is hence difficult to identify a retail organisation which has passed through all the four stages of the retail life cycle.

Till a few years ago, most cities in India had a few independent retailers in the private sector. For example, Mumbai had stores like Akbarally's, Premsons and Benzer. Then Shopper's Stop opened its first outlet in Mumbai in 1991. The store initially offered apparel, imitation jewellery, cosmetics and perfumes and home fashion. It also had a customer loyalty programme in place, which many stores at that time did not offer.

The store enjoyed an enviable position for a while. However, with the change in customer expectations, increased competition in the form of

other department store like Globus, Westside. Lifestyle, etc., and the rise of specialty store, the company has been forced to rethink its product offering. It now, not only stocks apparel, jewellery, cosmetics, etc., which it earlier stocked, but it also has acquired the bookstore chain - Crosswords. Crossword counters have been added to many of the existing stores. The store in Andheri also houses Planet M, a music retail chain, and a small coffee shop. It is necessary to keep in mind that a retailer need not always move from maturity to decline. By reworking the marketing strategy or by changing the product or service offering, a retailer can succeed in moving back to the growth phase after reaching a stage of maturity with a certain format and a certain mix of product.

1.9 POPULAR FORMATS OF RETAILING

Since the retail industry covers a wide range of corporations, it can be classified in various formats⁹. However the most popular format of classification is by the type of business channel the retailer implements to do business. Some of the popular categories are:

a. Mom-and-Pop Stores

This is represented by the small, individually owned and operated retail outlet. It is often seen that these are family-run businesses which cater to

⁹Business Standard (2013). India Ratings maintains negative outlook for retail sector. January 15. April 4, 2013.

the local community and are capable to provide high level of service. However they often have a limited product selection.

b. Mass Discounters

These are the type of retailers who sell either general or specialty merchandise. But their forte is in offering discount pricing to their customers. Compared to department stores, mass discounters offer fewer services and lower quality products.

c. Warehouse Stores

This is a form of mass discounter retailer. The prices offered by these types of retailers is even less than traditional mass discounters. However, the constraint on buyers is that they need to make purchases in quantities that are greater the quantities that can be purchased at mass discount stores. The level of service is often low and product selection can also be limited. Another form of warehouse stores is warehouse clubs where customers need to be members to be able to make purchases.

d. Category Killers

Major retailers also focus on a concept of specialty stores wherein they service by providing multitude of options within that product category. In Indian parlance, the concept of “category killers” is often found in the product categories as electronics (The E-Zone), office supplies (Office Link) and Books (Crosswords).

e. Department Stores

These retailers offer mid-to-high quality products and strong level of service. However in most cases these retailers do not fall into the full service category. Even though the Department stores are classified as general merchandisers; some retailers may opt to carry a more selective product line. For instance, while Big Bazaar carries a wide range of products from grocery to electronics, Shoppers Stop focuses primarily their products on apparel and lifestyle products.

f. Boutique

These are usually small stores catering very specialized or niche products which is often high-end merchandise. Also in all cases the level of service is very high for this format. They often follow a full pricing strategy and have prices which are more than the prices of merchandise available in any of the other formats.

g. Catalogue Retailers

The concept of this form of retailing is that the customers will place orders after seeing products from a published catalogue. Tata Sons retail venture Croma utilizes this business channel. Orders can either be delivered by in house logistics or a third-party shipper. The format utilized by McDonalds and Pizza Hut outlets for their delivery model can be identified as this format.

h. E-tailers

In this format the retailer principally sells via the Internet. There are thousands of online-only retail sellers of which EBay is the most famous in India. The benefit of this format for customers is that it is open 24X7 and for the retailer is that it does not need to stock the merchandise.

i. Franchise

This form of retailing comprises of a contractual channel where one part the franchisor controls the business activities of the other party franchisee. The franchisee has access to the franchisor's business methods and other important business aspects, such as the franchise name. In return the franchisee shares a part of the revenue with the franchisor. The common examples are McDonalds and Pizza Hut¹⁰.

j. Convenience Store

As the name implies these general merchandise retailers cater to offering customers an easy purchase experience. Convenience is offered in many ways including through easily accessible store locations, small store size that allows for quick shopping, and fast checkout. The product selection offered by these retailers is very limited and pricing can be high.

¹⁰Corporate Catalyst India (2009).Retail Industry in India. 24 June. April 9, 2013.

k. Vending

This form of retailing involves utilizing automated methods for customers to quickly purchase the desired product. This can be interactive kiosks and vending machines. The presence of vending machines for purchase of smaller items, such as beverages and snack food, is already common in case of products like beverages and magazines. However newer devices are entering the market which will be able to vend more expensive and bulkier products. By access of either Internet or telecommunications link, these systems will enable customers to use credit cards.

In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. Indian retail is expected to grow 25 per cent annually retail in India could be worth US\$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US\$ 16.7 billion business, growing at over 20 per cent per year. The future of the India Retail Industry looks promising with the growing of the market, with the government policies becoming more favourable and the emerging technologies facilitating operations¹¹.

¹¹Deloitte (2011). Indian Retail Market: Embracing a new trajectory. September- March 29, 2013.

Therefore, a retailer is a dealer or trader who sells goods in small quantities. Retailing is the final step in the distribution of products, for consumption by the end consumers. It consists of all activities involved in the marketing of goods and services directly to the consumers, for their personal, family or household use. This excludes direct interface between the manufacturer and institutional buyers such as government and other bulk customers. As it may be observed that retail is India's largest industry. The sector has witnessed an immense growth in the last few years. The key factors responsible for the retail boom have been the change in consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the government, increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers¹².

I. Sector Wise Profile

The Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organised retailing formats. The industry is moving towards a modern concept of retailing. The size of India's retail market was estimated at US\$ 435 billion in 2010. Of this, US\$ 414 billion

¹²Smriti Srivastava, Marketing Strategies Adopted by Retailers in Retail Store: A Case Study of Max Lifestyle Store-Phoenix Mall, Lucknow, IJRFM Volume 2, Issue 2, February 2012, ISSN 2231-5985

(95% of the market) was Traditional retail and US\$ 21 billion (5% of the market) was organized retail. India's retail market is expected to grow at 7% over the next 10 years, reaching a size of US\$ 850 billion by 2020. Traditional retail is expected to grow at 5% and reach a size of US\$ 650 billion (76%), while organized retail is expected to grow at 25% and reach a size of US\$ 200 billion by 2020. The US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets. As India's retail industry is aggressively expanding itself, great demand for real estate is being created. The cumulative retail demand for real estate across India is expected to reach 43 million square feet by 2013.

Around 46 per cent of the total estimated demand between 2009 and 2013 will be come from Tier-1 cities. For instance, Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future. Some of the key players in the Indian retail market, with a dominant share are:

- (i) Pantaloons Retail Ltd, a Future group venture: Over 12 mn sq. ft. of retail space spread over 1,000 stores, across 71 cities in India.
- (ii) Shoppers Stop Ltd: Over 1.82 mn sq. ft. of retail space spread over 35 stores, in 15 cities.

- (iii) Spencer's Retail, RPG enterprises: Retail footage of over 1.1 mn sq. ft. with approx. 250 stores, across 66 cities.
- (iv) Lifestyle Retail, Landmark group venture: Has approximately 15 lifestyle stores and 8 Home centers. Other major domestic players in India are Bharti Retail, Tata Trent, Globus, Aditya Birla 'More', and Reliance retail. Some of the major foreign players who have entered the segment in India are—
- Carrefour which opened its first cash-and-carry store in India in New Delhi.
 - Germany-based Metro Cash & Carry which opened six wholesale centres in the country.
 - Wal-Mart in a JV with Bharti Retail, owner of Easy Day store— plans to invest about US\$2.5 billion over the next five years to add about 10 million sqft. of retail space in the country.
 - British retailer Tesco Plc (TSCO) in 2008 signed an agreement with Trent Ltd. (TRENT), the retail arm of India's Tata Group, to set up cash-and-carry stores.
 - Marks & Spencer's have a JV with Reliance retail.

1.10 ASSESSMENT OF RETAIL IN INDIA

Retailing is one of the biggest sectors and it is witnessing revolution in India. The new entrant in retailing in India signifies the beginning of retail revolution. India's retail market is expected to grow tremendously in next

few years. According to AT Kearney, The Windows of Opportunity shows that Retailing in India was at opening stage in 1995 and now it is in peaking stage in 2006. The origins of retailing in India can be traced back to the emergence of Kirana stores and mom-and-pop stores. These stores used to cater to the local people. Eventually the government supported the rural retail and many indigenous franchise stores came up with the help of Khadi & Village Industries Commission. The economy began to open up in the 1980s resulting in the change of retailing. The first few companies to come up with retail chains were in textile sector, for example, Bombay Dyeing, S Kumar's, Raymond's, etc. Later Titan launched retail showrooms in the organized retail sector. With the passage of time new entrants moved on from manufacturing to pure retailing¹³.

Retail outlets such as Food world in FMCG, Planet M and Music world in Music, Crossword in books entered the market before 1995. Shopping malls emerged in the urban areas giving a world-class experience to the customers. Eventually hypermarkets and supermarkets emerged. The evolution of the sector includes the continuous improvement in the supply chain management, distribution channels, technology, back-end operations, etc. this would finally lead to more of consolidation, mergers and acquisitions and huge investments. India's retail market is expected to

¹³A. T. Kearney Report (2007), Growth Opportunities for Global Retailers.

grow tremendously in next few years. India shows US\$330 billion retail market that is expected to grow 10% a year, with modern retailing just beginning. In India, the most of the retail sector is unorganized. The main challenge facing the organized sector is the competition from unorganized sector. Unorganized retailing has been there in India for centuries. The main advantage in unorganized retailing is consumer familiarity that runs from generation to generation. It is a low cost structure; they are mostly operated by owners, have very low real estate and labor costs and have low taxes to pay. Organized retail business in India is very small but has tremendous scope.

While barter is considered to be the oldest form of retail trade, since independence, Retail in India has evolved to support the unique needs to our country given its size and complexity. Haats, Mandis and Melas have always been a part of the Indian landscape. They will continue to be present in most parts of the country and form an essential part of life and trade in various areas. The PDS or the Public Distribution System would easily as the single largest retail chain existing in the country. The evolution of the public distribution of grains in India has its origin in the 'rationing' system introduced by the British during the World War II.

The System was started in 1939 in Bombay and subsequently extended to other cities and towns. By the year 1946, as many as 771 cities / towns were covered. The system was abolished post war, however, on attaining

Independence, India was forced to reintroduce it in 1950 in the face of renewed Inflationary pressures in the economy. Tracing the evolution of Indian retail would be incomplete without mention of the Canteen Stores Department and the Post Offices in India. The Khadi & Village Industries (KVIC) was also set up post-independence. Today, there are more than 7,050 KVIC stores across the country. The Cooperative movement was again championed by the government which set up Kendriya Bhandars in 1963. In Maharashtra, Bombay Bazaar, which stores under the label Sahakari Bhandar, and Apna Bazaars run a large chain of Co-operative stores. In the past decade, the Indian marketplace has transformed dramatically. However from the 1950's to the 80's investments in various industries was a limit due to the low purchasing power in the hands of the consumer and the Government's policies favouring the small- scale sector this time many steps towards liberalization were taken in the period of 1985-90. At this time many restrictions on private companies were lifted, and in the 1990's the Indian economy slowly progressed from state led to becoming 'market friendly'. While independent retail stores chain like Akbarally's Vivek's and Nalli's have existed in India for a long time, the first attempts at organized retailing were noticed in the textiles sector. One of the pioneers in this field was Raymond's which set up stores to retail

fabric. It also developed a dealer network to retail its fabric. These Dealers sold a mix of fabrics of various textile companies¹⁴.

The Raymond's distribution network today of 20,000 retailers and over 429 showrooms across the country. Other textile manufacturers who also set up their own retail chains were reliance – which set up Vimal Showrooms – and Garden Silk Mills with Garden Vareli. It was but natural that with the growth of textile retail, readymade branded apparel could not be far behind and the next wave of organized retail in India saw the likes of Madura Garments, Arvind Mills, etc. set up showrooms for branded mens wear. With the success of the branded mens wear store, the new age departmental store arrived in India in the early nineties.

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense

¹⁴ A.T. Kearney (n.d.), Global Retailers: Cautiously Aggressive or Aggressively Cautious? 2013 Global Retail Development Index, November 8, 2013.

activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus¹⁵.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. In June 2012, IKEA announced it had applied for permission to invest \$1.9 billion in India and set up 25 retail stores. An analyst from Fitch Group stated that the 30 percent requirement was likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi brand retail, subject to approvals by individual states. This decision was welcomed by economists and the markets, but caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi-brand retail, thereby making it effective under Indian law. On 7 December 2012, the Federal

¹⁵FICCI (2011).Sector Profile. 2 December. April 5, 2013.

Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition. Some states will allow foreign supermarkets like Walmart, Tesco and Carrefour to open while other states will not¹⁶. India's Retailing Boom has acquired further momentum, dynamism and vibrancy with international players experimenting in the Indian market and the country's existing giants taking bold innovative steps to woo the consumer. At the same time, the early entrants are redefining their strategies to stay competitive and suit the new market landscape. In coming years it would be liking to witness rapid growth in the organized retailing sector with several leading international players establishing their presence in India by adjusting their formats to suit local tastes and buying behaviour while regional players have stepped up their defenses and are striving to gain edge over global players by using their knowledge of local markets. Clearly the next wave of the retail boom is upon us.

Retailing is one of the pillars of the economy in India. Over the past few years, the retail sale in India is hovering around 34-39% of GDP as compare to 22% in the US. The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, Indian retail

¹⁶GROVER, M. V. (May 2012). RETAIL SECTOR IN INDIA: ISSUES & CHALLENGES. International Journal of Multidisciplinary Research.

industry is one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. Now with growing market demand, the industry is expected to grow at pace of 25-30% annually. The Indian retail industry is currently growing at a great pace and is expected to go up to US \$ 977 billion by the year 2015. In the last four years consumer spending in India has climbed up to 82 %. In India though, organized retail accounts for app. 7-8% of total retail revenues, however, with a young population, increasing disposable income, changing life styles and a robust economy India is set to emerge as one of the fastest growing organized retail markets in the world¹⁷.

Organized retailing refers to trading activities undertaken by licensed retailers, i.e. those who are registered for sales tax, income tax, etc. These include the corporate backed hypermarkets and retail chains and also the privately owned larged retail businesses. Unorganized retailing, on the hand, refers to the traditional formats of low cost retailing, for example, the local kirana shops, owner manned general stores, convenience stores, hand cart and pavement vendors etc.¹⁸

¹⁷ibid

¹⁸ Dr. Mahalaxmi Krishnan &UshaBhandare, Retail Advertising and Promotional Strategies in Growing Consumer Market, Abhinav National Monthly Refereed Journal of Research in Commerce & Management, Vol. No.1, Issue No.1, ISSN 2277-1166.

Modern retailing formats in retail sector in India are becoming popular now a day. This is the sector which shows the maximum potential yet to be explored because, still 97-98% of total retail industry lies with unorganized sector. The domestic retail market is expected to grow from \$330 billion in 2008 to \$740 billion by 2015. It means yet domestic as well as international organized retailers have the unexplored potential in Indian economy. Yet modern retailing is going through transition in India, upcoming modern formats have to face a very tough competition from traditional formats. People are not ready to give up habits and mind set for traditional mom and pop shop. And on the other hand, an ever- going variety of institutions, constantly buffeted by a highly fluid environment leads the unorganized sector to be fiercely competitive and innovatively oriented. Without modifications and innovations in working style of small kiriyana stores their existence will be at the stake.

Retailing is one area of the broader term, e-commerce. Retailing is buying and selling both goods and consumer services. With more number of educated and literate consumers entering the economy and market, the need for reading the pulse of the consumers has become very essential. Retail marketing is undergoing radical restructuring. This is because of increase in gross domestic product, increase in per capita income, increase in purchasing power and also the ever changing tastes and preferences of the people. The entry of plastic money, ATMs, credit cards and debit cards and

all other consumer finances, the taste for the branded goods also added for the evolution of retail marketing.

Retail marketing is not just buying and selling but also rendering all other personalized consumer services. With the RM picking up it has given a new look for various fast moving capital goods (FMCG) goods. This not only increased the demand for various goods in the market but also made retail marketing the second largest employment area, the first being agriculture.

1.11 INCREASING TREND OF RETAIL INDUSTRY IN INDIA

An increasing number of people in India are turning to the services sector for employment due to the relative low compensation offered by the traditional agriculture and manufacturing sectors. The organized retail market is growing at 3.5 percent annually while growth of unorganized retail sector is pegged at 6 percent. The Retail Business in India is currently at the point of inflection. Rapid change with investments to the tune of US \$ 25 billion is being planned by several Indian and multinational companies in the next 5 years. It is a huge industry in terms of size and according to management consulting firm Techno park advisors pvt. ltd., it is valued at about US \$ 350 billion. Organized retail is expected to garner about 16-18 percent of the total retail market (US \$ 65-75 billion) in the next 5 years. According to the tenth report of GRDI of AT Kearney, India is having a very favourable retail environment and it is placed at 4th spot in the GRDI.

The main reasons behind that is the 9% real GDP growth in 2010, forecasted yearly growth of 8.7% through 2016, high saving and investment rate and increased consumer spending¹⁹. According to report, organized retail accounts for 7% of India's roughly \$435 billion retail market and is expected to reach 20% by 2020. Food accounts for 70% of Indian retail, but it remains under penetrated by organized retail. Organized retail has a 31% share in clothing and apparel and continues to see growth in this sector. A report by Boston Consulting Group has revealed that the country's organized retail is estimated at US \$ 28 billion with around 7% penetration. It is projected to become a US \$ 260 billion business over the next decade with around 21% penetration. The analysts believe that the sector is likely to show significant growth of over 9% over the next ten years and also see rapid development in organized retail format with proportion likely to reach more respectable 25% by 2018. The BMI India Report for the first quarter of 2012 released forecasts that total retail sales with growth from US \$ 422.09 billion in 2011 to US \$ 825.46 billion by 2015. The report highlights strongly underlying economic growth, population expansion, increasing disposable income and rapid emergence of organized retail infrastructure as major factors behind the forecast growth.

¹⁹Girish K. Nair & Harish K Nair (2011). FDI in India's Multi Brand Retail Sector: How to Get Ready for the Big Play. Munich, GRIN Publishing Gmb H April 9, 2013.

Indian retail sector is wearing new clothes and with a three year compounded annual growth rate of 46-64%, retail is the fastest growing sector in the Indian economy. The sector is the second largest employer after agriculture, employing more than 35 million people with wholesale trade generating an additional employment to 5.5 million crore. The enormous growth of retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace.

According to report titled “India Organized Retail Market 2010”, published by Knight Frank, during 2010-12, around 55 million square feet of retail space will be ready in Mumbai, NCR, Bangalore, Kolkata, Chennai, Hyderabad Pune, and Mumbai. Besides between 2010 and 2012 the organized retail real estate will be grown from existing 41 million square feet to 95 million square feet but later on it has not been increased rapidly particularly in real estate sector. The number of shopping mall is expected to expand at CAGR of 18.9% by 2015, are flourishing day by day. Hypermarket, currently accounting for 17% of mall space is expected to witness high growth. Industry experts predict that the next phase of growth in the retail sector will emerge from the rural market. By 2022, the rural retail market is projected to have a total of more than 80% market share.

Indian retail sector very much differ from the world market, is highly fragmented as compared to the developed as well as the other developing

countries. This shows a great potential for the organized retail industry to prosper in India, as the market for the final consumption in India is very large. Retail trade is largely in the hands of private independent owners and distributor's structure for fast moving consumer goods consisting of multiple layers such as carrying and forwarding agents, distributors, stockiest, wholesalers and retailers. There are good days for organized sector. In the next 5-6 years, India will finally see operations of a number of very serious international players- net withstanding the current restrictions on FDI in retail²⁰. The Indian retail sector is ready to take on challenges from global retail players such as Walmart and Carrefour because unlike them, they have a better understanding of the Indian consumer's psyche. Ultimately, a successful retailer is one who understands his customer. The Indian customer is looking for an emotional connection, a sense of belonging. Hence, to be successful any retail outlet has to be localized. The customer should feel that it is a part of his culture, his perceived values, and does not try to impose alien values or concepts on him. Indian customer is not keen to buy something just because it is sold by an international company²¹.

²⁰Morgan Stanley Report.(2006) India Economics. The Retail Revolution Part. I – The Macro Story.

²¹Deepika Jhamb and Ravi Kiran, Emerging Trends of Organized Retailing in India: A Shared Vision of Consumers and Retailers Perspective, Middle-East Journal of Scientific Research 11 (4): 481-490, 2012,ISSN 1990-9233.

1.12 RETAILING FORMATS IN INDIA

Some of the prevalent retailing formats in India include-

- **Malls** - Most malls give floor space out to individual shops on lease, and these are enticed by the economies resulting from the sharing of cost. India's largest shopping arcade Spencer Plaza (600,000-sq-ft) in Chennai is an example. In malls like these, the combined brand pull of all outlets is used to create a pull for the mall.
- **Branded Stores** – Exclusive showrooms run by premium brands have been the catalyst in pushing up the Indian retail scenario. This concept is now being used to introduce organized retailing to the second rung towns. Madura Garments has started setting up exclusive outlets in cities like Trichy and Thanjavur.
- **Departmental Stores** – Departmental stores are expected to take over the apparel business from exclusive brand showrooms, for example K Raheja's Shoppers Stop.
- **Specialty Stores** – These types of stores generally concern on a specific area of market as chain such as Kids Kemp and Mumbai based book retailer Crossword has gain popularity in their segments.

1.13 EMERGING TRENDS

Retailing in India is at a nascent stage of its evolution, but within a small period of time certain trends are clearly emerging which are in line with the global experiences. The biggest challenge for organized retailing is to create an environment that pulls in people and makes them spend more time shopping and also increases the amount of impulse shopping. Organized retailers bring professional designers while developing new property. So many retail chains like Music World, Barista, Pyramid and Globus are laying major emphasis & investing heavily in store design.

Unorganized Retailing is Getting Organized-To meet the challenges of organized retailing that is luring customers away from the unorganized sector, the unorganized sector is getting organized. 25 store in Delhi under the banner of provision mart are joining hands to combine monthly buying. Bombay Bazaar and Food mart have also been formed which are aggregations of Kiranas. So many Malls, Large Cineplex's and big stores are opened in Delhi. Before the decade of eighties, India with hundreds of towns and cities was a nation striving for development. The evolution was being witnessed at various levels and the people of India were learning to play different roles as businessmen and consumers. Retail-which literally

means to put on the market, is a very important aspect of every city²². Without a well-organized retail industry we would not have our necessities and luxuries fulfilled. Be it our daily groceries or fashion accessories and everything in between, retail industry brings us the blissful experience of shopping. Though organized retailing industry began much earlier in the developed nations, India had not actively participated. However with its vast expanse and young population, India in the 21st century emerges as a highly potential retail market. The journey of retailing in India has been riveting and the future promises further growth. Here is a complete picture deciphering the past, present and future trends of Indian Retail Market. Retailing in India at this stage was completely unorganized and it thrived as separate entities operated by small and medium entrepreneurs in their own territories. There was lack of international exposure and only a few Indian companies explored the retail platform on a larger scale. From overseas only companies like Levi's, Pepe, Marks and Spencer etc. had entered targeting upper middle and rich classes of Indians. However as more than 60 % population was formed by lower and lower middle class people, the market was not completely captured. This was later realized by brands like Big Bazaar and Pantaloons who made their products and services accessible to all classes of people and today the success of these

²²Menon Bindu D. (2013).Multi-Brand Retail: Has India fallen off global players" radar The Hindu Business Line. November 7, 2013.

brands proves the potential of Indian retail market²³. According to a study the size of the Indian Retail market is currently estimated at Rs. 850 crores which accounts for a meager 4 % of the total retail market. As the market becomes more and more organized the Indian retail industry will gain greater worth. The Retail sector in the small towns and cities will increase by 50 to 60 % pertaining to easy and inexpensive availability of land and demand among consumers. Growth in India Real estate sector is also complementing the Retail sector and thus it becomes a strong feature for the future trend. Over a period of next 5-6 years there will be a retail space demand of 50 million sq. ft. However with growing real estate sector space constraint will not be there to meet this demand. The growth in the retail sector is also caused by the development of retail specific properties like malls and multiplexes²⁴.

The implication of the existing Policy changes may minimize bureaucratic processes have been emended with a new “automatic route” that reduces licensing time for corporations by eliminating the requirement to obtain prior governmental authorization except in sectors where an industrial

²³ Joseph et al, Impact of Organized Retailing on Unorganized Sector, ICRIER Report, May 2008.

²⁴ Deepika Jhamb & Ravi Kiran, Retail Marketing Strategies: Need for A Relook with Changing Preferences of Consumers Towards Retail Formats, International Journal of Retail Management & Research (IJRMR), Vol.2, Issue 4 Dec 17-30, ISSN 2277-4750

license is required, which include areas in manufacturing of alcohol, tobacco, defence equipment, and pharmaceuticals. In addition to the “automatic route,” the Foreign Investment Implementation Authority (FIIA), along with the Fast Track Committee from 30 federal departments, assist foreign investors in the application process and resolution of grievances.

Despite opening of many sectors, policies continue to limit foreign ownership of corporations to 51%. Still protective of small and medium enterprises (SMEs), particularly the textile, arts and crafts, cottage industries, and small retail shops that employ 70% of the working population, India’s central government continues to restrict FDI in those sectors in response to the protests of local businesses and as protectionist support for villages.¹¹ However, retail is slowly opening up, allowing 51% majority ownership in single-brand name stores, such as Nike or Starbucks. The recent joint-venture between Wal-Mart and the Indian telecom company Bharti Enterprises Ltd. makes Wal-Mart the first foreign retail chain store.

1.14 ECLECTIC THEORY

Now although there are several different theories have been observed which have evolved for analysing determinants and affects of FDI, an exceptionally flexible and increasingly popular one is the “Eclectic

Theory” of John Dunning postulates that specific factors of both, firm and the country are necessary for firm’s investment.²⁵ When it is most profitable for a multinational Firms to advantages to internationalize its oligopolistic advantages in a given foreign country.

It will invest in that country otherwise it will exploit the country through exports. The OLI stands for Ownership, location and internationalization so in this theory OLI plays a major role. The Eclectic or OLI paradigm suggests that the greater the O (ownership) and I (internationalization) advantage possessed by firm the more than L (location) advantages of creating acquiring (or originating) and exploiting these advantages from a location outside its home country the more FDI will be undertaken.²⁶ So the main purpose of the eclectic paradigm is to provide an analytical framework to the analyst so that they could choose the most suitable approach for the investigation that he intends to undertake. It assumes that MNC’s possess ownership advantages from their intangible assets in the form of technology etc. this has enabled them to reduce the transaction cost through the internationalisation process. Internationalisation advantages arise because of exploitation of technology and the locational and other advantages occurring in the host country. So it’s been clear that Dunning’s

²⁵ Feenstra, Robert, C (1998); Fact and Fallacies about Foreign Direct Investment, National Bureau of Economic Research.

²⁶ Kojima, Kiyoshi (1978): Direct Foreign Investment, Croom Helm London.

theory explain foreign investor's ownership fundamental. Which shows that they invest in other countries for spreading there network in different location and they simply want to internationalize there trade so they invest in other countries. In this way they leads the country on the road of prosperity. With higher rate of growth and increased revenues. Which in turn helps economy of a country to reduce deficit and rate of inflation. Therefore foreign direct investment theories help in finding out the movement of foreign capital. These theories develop the attitude of geocentric in all over the globe. It removes the autarky conditions. This may increase the FDI level and in turn help in increasing growth by introducing new technologies, such as new production process and techniques, managerial skills, ideas, and new varieties of capital change for economic growth has been emphasized.²⁷

Now after studying the above theories we come to the point that the capital movement in the developing and developed countries is not simple as the terms sounds. It is a complex structure because any country of the world becomes the host or recipient for foreign flows only when there is insufficiency of resources. These resources are in any form, machinery, human resources skill, but it mostly comes in the form of finance. So in above theories we have cleared that Foreign Investment is done to establish

²⁷ Herms, Niels and Lensink, Robert (2003): "Foreign Direct Investment Development And Economic Growth". The Journsl of Development studies Vol 40 Published by frank class, London. October.

their firm in a foreign firms. As in this situation foreign firms established ventures with a domestic firms so to avoid the oligopolistic situations. This helps them in saving from tough competition, and helps them to solve the management problems.