CHAPTER V

CHANGES IN ORGANIZED RETAIL SECTOR
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CHAPTER V

CHANGES IN ORGANIZED RETAIL SECTOR

(2001-2010)

5.1 Introduction
This chapter deals with changes appeared during the period 2001-2010 in organized retail sector. The Indian retail sector, over the last decade, has shown larger acceptance for organized retailing formats. In this chapter the researcher has explored many changes in organized retail sector like changes in market size, changes in organized retail market share, significant changes in retail format, changes observed in new retail space. Thus the researcher has explored major changes in Indian retail reforms including foreign direct investment. Domestic retailing has been going through a shift from a huge amount of unorganized family owned business to organized retailing. Fast urbanization, changes in shopping pattern, demographic dividend and practical measures by the Government are cheering the growth of the Indian retail sector. Retail sector in India accounts for 22 per cent of the country’s GDP and contributes 8 per cent of total employment. Hypermarkets, at present accounting for 14 per cent of mall space are likely to witness high growth. The most important driving factor for organized retail sector in demographic dividend, which consists of more than 50% of the country’s population aging 25 years.

5.2 India Retail Sector:
Traditionally retail sector in India can be traced in form of weekly markets, melas, village fairs in small towns and kirana stores, PDS outlet, khadi bhandaar, cooperative store in urban cities. The wave of organized retail started with various textile manufactures like Bombay Dyeing, Raymonds, S Kumar’s, and Grasim. These brands were selling the products from their outlets and competition among FMCG companies driving the forces towards retailing.
Table No. 5.1 and Graph No. 5.1 present the changes in the size of Indian Retail Market.

**Total No. 5.1**

*Changes in the Indian Retail Market Size (USD Bn)*

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>USD Bn</td>
<td>201</td>
<td>204</td>
<td>238</td>
<td>278</td>
<td>321</td>
<td>368</td>
<td>421</td>
</tr>
</tbody>
</table>

**Graph No. 5.1**

*Changes in the Indian Retail Market Size (USD Bn)*

According to the above table and graph - In the year 1998 retail market size was 201 USD Bn. In the year 2000 retail market size reached up to 204 USD Bn. It is observed that retail market size increased consistently from 1998 to 2010. In the year 2010 retail market size reached up to 368 USD Bn.

It is concluded that Indian Retail Market Size consistently increased from 1998 to 2010. It is one of the significant changes in Indian Retail Sector in 1998 to 2010.

The development of retailing lead to an emergence of various modern formats like Supermarts, Shopping malls, Departmental Stores, Hyper-markets, and Apparel Stores etc. Indian Retail sector is rising as one of the largest industry with total market size of USD 320 billion in 2006 which extended up to USD 421 billion by 2010.
5.3 Changes in Organized Retail Sector:
Due to the urban rural divide, Modern retail grows in the metros and large cities, followed by rural and semi urban areas. In the period of last 10 years, organized retail has been extending in urban cities also making entries in rural areas and semi urban areas. In 2007 organized retail market was 4% of the total retail sector in India. That is approximately Rs 67,310 crore and it extended to 27% per annum, aggregating to Rs 1,75,103 crore (7.44% of the total Indian retail sector) in 2010-11. The Indian retail industry is assumed to grow up at GDP growth rate. The retail revolution signals softening of inflation rate on annual basis, due to removal of mediators in retailing and passing on all the benefits to the end consumers. The mantra expediting the retail development is “Consumer is the King”. Organized Share of Indian retail sector has boost up to 7-8 percent in 2010-11 from 4% in 2007. It is clear with the help of following graph no. 5.2 represents changing share of Organized Retail Sector.

Graph No. 5.2
Changing Share of Organized Retail Sector

The Indian retail industry has gathered a new momentum with the establishment of various international brand stores, supermarkets or hypermarkets, departmental stores and shopping mall. The Indian organized retail segment is predicted to be 9% of total retail market by 2015 and grow up to 20% by 2020. Hypermarkets would be the largest retail segment, accounting for 21% of the total retail space by 2013–14. India has the largest numbers of retail stores in the world. The retail sector is realizing exponential development, with retail development taking place not just in major cities, but also in
Tier-II and Tier-III cities. India's rising population and urbanization provide a massive market for Indian organized retail sector. Increasing economic prosperity and change in consumption patterns drives demand of Indian retail sector. According to Global Retail Development Index and ranked sixth in the 2011 Global Apparel Index, India position fourth amongst the 30 countries.

According to, The BMI India Retail Report for the 04th quarter of 2011 predicts that total Indian retail sales will rise from US$ 411.28 billion in 2011 to US$ 804.06 billion by 2015. Healthy economic development, population growth, the rising wealth of individuals and the quick construction of organized retail infrastructure are important factors behind the predicts growth. As well as a growing upper and middle class consumer’s base, there will also be opportunity in India's Tier-2 and Tier-3 city. The greater accessibility of personal credit and a rising vehicle population providing improved mobility also contribute to a trend of 11.9 % annual retail sales growth.

Tourism is also a main contributor to the retail sector in India.

The Indian retail industry was at USD 350 billion in 2007 and reached at an extraordinary pace to USD 427 billion by 2010 and USD 637 billion by 2012 (AT Kearny).

Being largely unorganized in nature, 93 % of total Indian retail sales come from Indian unorganized retail (FICCI). However, with the aggression of Indian modern organized retail sector and its subsequent expansion at an unequaled pace, Indian retail sector has been witnessing a striking shift in terms of organization, from the traditional family run small shops to the supermarkets, shopping mall, hypermarkets etc.

The retail space for Indian modern formats has increased from 3.5 million sqft in 2001 to 30.69 million sqft in 2006 (ICRIER 2008: 11) and organized retail sales increased at a compound annual growth rate (CAGR) of 40% between 2007 and 2010 (AT Kearny).

Notable economic expansion and the resulting increase in consumption expenditure, the changing demographics of the country, developing lifestyle pattern and the increased accessibility of low cost consumer loans are considered to be the main drivers of this expansion. The huge sizes of the Indian retail sector and the highly optimistic growth projection for Indian organized retail in the coming years have attracted massive investments.
It is reported that 40 retail giants, the major being Wal-Mar-Bharti, AV Birla group, Reliance and Future group think to invest more than USD 25 billion (Not including real-estate investment) to lift the share of Indian organized retailing from the present 7% to 20-25% in coming four years (FDI India Watch)\(^4\).

The Indian organized retail market reached at US$ 26 Bn in 2011 and expected to grow up to US$ 84 Bn by 2016 at a CAGR of 26.0\(^5\).

### 5.4 Growth of Organized Retail Sector (2001-2010)

#### The Growth of Organized Retail Sector in Cities

The Indian retail sector contributed up to around 36% of GDP in India. Organized Retail sector is major employment generator. Indian organized retail is at its nascent phase wherein the large organized retail groups are having aggressive growth plans to enter the Tier I cities and Metros and also set up themselves among rural masses of Tier II and Tier III cities. There lies a challenge for Indian organized retailers to experiment with new formats along with developing customer loyalty. Since there will be demographic changes in population growth, migration and urbanization due income distribution. The total Indian retail market in the top 67 cities in 2006 was Rs. 2.55 trillion, extended to increase up to Rs. 3.91 trillion in 2011. According to CRISIL, around 87 %of the retail opportunity comes from top 25 cities including

**Metro**

Mumbai, Delhi, Bangalore, Calcutta, Hyderabad, Chennai.

**Mini Metros**

Pune, Ahmedabad

**Tier I**

Nagpur, Ludhiana, Surat, Kanpur.

**Tier II**

Kochi, Jaipur, Coimbatore, Chandigarh, Lucknow.

**Tier III**

Nashik, Madurai, Vadodara, Vizag, Indore, Vijaywada,

Thiruvananthpuram, Bhopal.
5.4.1 Growth over 1997-2010

Indian retail sector in 1997 permitted FDI in cash and carry wholesale. The approval conditions were relaxed and automatic permissions were approved in 2006. In 2000 to 2010, retail sector in India attracted about $1.8 billion FDI, representing small 1.5 per cent of total investment flow into India. Single-brand retailing attracted 94 proposals between 2006 and 2010, of which 57 were permitted and executed. This is a small figure for a country of 1.2 billion populations. Some claim one of the primary restraints inhibiting better participation was that India required single brand retailers to limit their ownership in Indian outlets up to 51%. Whereas China permits 100% ownership by foreign organizations in multi brand retail and single brand.

Indian retail has realized restricted growth. Its spoilage of food harvest is amongst the highest in the world because of limited integrated cold chain and other infrastructure. India has only 5386 stand alone cold storages, having a total capacity of 23.6 million metric tons. However, 80% of this storage is used for potatoes only. The remaining capacity of infrastructure is less than 1 per cent of the annual farm output in India and grossly insufficient during peak harvest seasons. This tends to nearby 30 per cent losses in certain perishable agricultural output in India, every year. Indian laws permit FDI in cold chain infrastructure to the extent of 100%. There has been no interest in FDI in cold storage infrastructure build out. Many experts argue that the cold storage infrastructure will become reasonably feasible only when there is contractually binding demand from modern organized retail. The hazard of cold storing perishable food, without an assured way to move and sell it, puts the economic feasibility of expensive cold storage in doubt. In the lack of organized retail competition and with a ban on FDI in multi brand retailers (2001-2010), FDI are improbable to begin in cold storage and farm logistics infrastructure.

Till 2010, mediators (middlemen) in India have dominated value chain. Due to a number of intermediaries involved in the traditional retail chain system in India, norms are flouted and pricing absent transparency. Small farmers in India realize one third of the
total price paid by the final Indian consumer, as against two third by farmers in the nations with a higher share of organized retail.

India have restricted expansion and prevented innovation in retail industry in India. India has had years of debate and discussions on the risks and cautions allowing in the retail industry.

Many economists frequently recommended to the Government of India that legal restrictions on organized retail must be removed, and the retail industry in India must be opened to competition.

For example, Prof. J. Bhagwati, Professor of Economics and Law at the Columbia University was invited to the Indian Parliament in December 2010. He analyzed the association between growth and poverty reduction, then requested to the Indian parliament to expand economic reforms by freeing up of the retail sector. Further liberalization of trade in all sectors, and introduction of labor market reforms.

According to Report in 2007 a rising number of populace in India are turning to the service sector for services due to the relatively low payment offered by the traditional agriculture and manufacturing sectors. The organized retail market is growing at 35% annually while growth of unorganized retail sector is pegged at 6%.

In 2008 The Retail sector in India was at the point of inflection. In 2008, fast changes with investments to the tune of US $ 25 billion were being planned by many multinational and Indian organizations in the next 5 years.

According to IBEF - India Brand Equity Foundation, It is a vast sector in term of size, which is esteemed at about US$ 395.96 billion. Organized retail sector in India is expected to acquire about 16-18% of the total Indian retail market - US $ 65-75 billion in the next 5 years. India topped the A.T. Kearney’s annual GRDI- Global Retail Development Index for the third successive year, and maintains its place as the most attractive market for retail investment. The economy in Indian has registered a growth of 8% for 2007 and 7.9% for 2008.

The massive growth of the Indian retail sector has formed a huge demand for real estate. Property developers were creating retail real estate aggressively in 2010. About 300 malls were estimated to be operational in the country.
5.4.2 Growth after 2011

Before 2011, India had banned novelty and organized competition in retail industry. Many studies argued that the lack of infrastructure and competitive retail industry are main causes of India's gradually high inflation. Also because of unorganized retail, in a nation where undernourishment remains a problem, food waste is common. More than 30% of food staples and perishable goods produced in India mess up because of poor infrastructure and small retail stores avoid hygienic storage and movement of the goods from the farmer to the consumer.

One report estimated that the 2011 retail market in India generated sales of about $470 billion a year, of which a miniscule $27 billion comes from organized retail such as hypermarket, supermarkets, chain outlets through centralized system and shops in malls.

Many experts believe that the growth of retail sector in India will take time, with organized retail may be need a decade to grow to a 25 per cent share. 25 per cent market share, given the anticipated expansion to retail sector in India by 2021, and expected to be over $250 billion a year\textsuperscript{12}.

The Economist predictions that retail sector in India will almost twice in economic value, growing by about $400 billion by 2020. In 2011, food contributed 70 per cent of Indian retail sector, but was represented by organized retail. A.T. Kearney predicted organized retail in India had a 31 per cent share in apparel and clothing, and home supplies were rising between 20 per cent to 30 per cent per year\textsuperscript{13}.

5.5. Changes in the Retail Format:

Following Table No. 5.2 presents the changes in the Retail Fermat, Earlier retail formats were Conventional Formats e.g. Kiranas, Mandis, Village Haats, Push Cart Vendor.

But now it has been changing in to Modern Retail Formats. New formats such as Shopping Mall, Hypermarket, Supermarkets, Departmental Stores, Apparel Stores, Specialty formats, Exclusive formats are appearing all around rapidly.
Table No. 5.2
Changes in the Retail Format

<table>
<thead>
<tr>
<th>Conventional Formats</th>
<th>Modern Organized Retail Formats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kiranas</strong></td>
<td><strong>Shopping Malls</strong></td>
</tr>
<tr>
<td>These are food and non-food</td>
<td>60,000-7,00,000 sq.ft area</td>
</tr>
<tr>
<td>neighborhood counter stores,</td>
<td>Multi-format, Multiproduct,</td>
</tr>
<tr>
<td>also called ‘mom and pop stores’</td>
<td>Multi-brands, Catering lifestyle needs,</td>
</tr>
<tr>
<td>in western countries. These are</td>
<td>Provides great shopping experience.</td>
</tr>
<tr>
<td>big chunks forming the</td>
<td></td>
</tr>
<tr>
<td>segregated and unorganized</td>
<td></td>
</tr>
<tr>
<td>retail segment. These are family-</td>
<td></td>
</tr>
<tr>
<td>owned and-run retail-outlets</td>
<td></td>
</tr>
<tr>
<td>picking the goods from</td>
<td></td>
</tr>
<tr>
<td>wholesalers totaling to around</td>
<td></td>
</tr>
<tr>
<td>12 million stores across India.</td>
<td></td>
</tr>
<tr>
<td><strong>Mandis</strong></td>
<td><strong>Hypermarket</strong></td>
</tr>
<tr>
<td>These are the largest chunk of</td>
<td>Hypermarkets offer a large basket of products, ranging</td>
</tr>
<tr>
<td>unorganized retail catering to</td>
<td>from grocery, fresh and processed food, beauty and</td>
</tr>
<tr>
<td>urban and rural masses. Mandis</td>
<td>household products, clothing and appliances, etc with</td>
</tr>
<tr>
<td>are physically located at</td>
<td>50,000-70,000 sq.ft area</td>
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<tr>
<td>different regions to enhance</td>
<td></td>
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<tr>
<td>convenient shopping. The sellers</td>
<td></td>
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<tr>
<td>bring across various products</td>
<td></td>
</tr>
<tr>
<td>like eatables, vegetables and</td>
<td></td>
</tr>
<tr>
<td>fruits, pulses, cereals, spices</td>
<td></td>
</tr>
<tr>
<td>etc. The most prominent of them</td>
<td></td>
</tr>
<tr>
<td>are sabzi mandis found in most of</td>
<td></td>
</tr>
<tr>
<td>the localities across India.</td>
<td></td>
</tr>
<tr>
<td><strong>Village Haats</strong></td>
<td><strong>Supermarket</strong></td>
</tr>
<tr>
<td>This form is operating in rural</td>
<td>Supermarkets are generally large in size and typical</td>
</tr>
<tr>
<td>areas where buyers and sellers</td>
<td>in layouts. They offer not only household products but</td>
</tr>
<tr>
<td>gather once in a week or month</td>
<td>also provide food as an integral part of their services.</td>
</tr>
<tr>
<td>from nearby villages and small</td>
<td>5,000-10,000 sq.ft area</td>
</tr>
<tr>
<td>towns to</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Departmental Stores</strong></td>
</tr>
<tr>
<td></td>
<td>Departmental stores generally have a large layout with</td>
</tr>
<tr>
<td></td>
<td>a wide range of merchandise mix, usually in cohesive</td>
</tr>
<tr>
<td></td>
<td>categories, such as</td>
</tr>
</tbody>
</table>
cater their livelihood and leisure needs. These haats are a source of entertainment and socialization among rural masses.

**Push Cart Vendors**
categories of vendors roaming from door to door in various localities selling fruits, vegetables, and other eatables, from which mostly housewives makes purchases that too on credit.

fashion accessories, gifts and home furnishings, but skewed towards garments. 20,000-50,000 sq.ft.

**Apparel Stores**
20,000-25,000 sq.ft area
Multi-branded single verticals, focusing on high-end customers.

**Specialty format**
Specialty stores are single-category, focusing on individuals and group clusters of the same class, with high product loyalty. 2,000-5,000 sq.ft area
Multi-branded, single vertical on specific needs of customers

**Exclusive formats** 500-5,000 sq.ft
Owned/Franchised single Product

The Following Table No. 5.3 shows the Advantages of Conventional and Modern Organized Retail Formats.

**Table No. 5.3**

**Advantages of Conventional and Modern Organized Retail Formats**

<table>
<thead>
<tr>
<th></th>
<th>Conventional</th>
<th>Modern Organized Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low operating-cost and overheads</td>
<td>Large bargaining power</td>
<td></td>
</tr>
<tr>
<td>Proximity to consumers</td>
<td>Range and variety of goods</td>
<td></td>
</tr>
<tr>
<td>Long operating-hours</td>
<td>Quality assurance (brand related, durability)</td>
<td></td>
</tr>
<tr>
<td>Strong relations with customers</td>
<td>Convenience and hygiene</td>
<td></td>
</tr>
</tbody>
</table>
5.6 Indian Organized Retail Sector in Global Financial Crises (2008-09)

The retail market in India was facing slowdown in 2008-09. Financial crisis was happening across the world markets. The impact of the crisis was generally shared among all. With the suddenly disturbed economical status, consumers were gradually losing interest on buying.

According to a study by global consultancy firm KPMG, India's retail sales growth fell sharply to 11 per cent in December 2008 from 34 per cent in the like period of 2007. Slowing sales resulting in lower inventory turnover and increasing working capital requirements to fuel growth had resulted in liquidity pressures for many domestic retailers.

5.6.1 Indian Retail sales Growth Slumps as Recession Bites - KPMG survey (2008-09)

India's retail sales growth fell sharply to 11 per cent in December 2008 from 34 per cent in the period of 2007, according to a study by global consultancy firm KPMG. The report added that the slowdown was likely to 12-18 months, depending on the government's measures to boost the economy.

The retail industry was the next big hope for India's economy. Stores were opening everywhere, with sprawling malls and tony boutiques holding glitzy launch parties across the country.

Retailers bought up every inch of space in India's largest cities, sending real estate prices through the roof. Even India's small towns caught mall-mania. But as India's economy felt the impact of the global recession, Indian consumers were cutting back on spending, and retailers were facing a major slowdown.

"Falling footfalls and poor conversion ratio have led to a decline in sales growth to 11 per cent in December 2008 compared to 34 per cent in December 2007," said the KPMG report.

It was said that a demand contraction following a slowdown in the domestic economy had impacted the sales of retailers; and urged the government to increase spending on infrastructure and other development initiatives.
In the KPMG survey, 70 per cent of the respondents said lower sales have adversely affected footfalls, prompting them into better cost management including renegotiation of rentals, store rationalization and manpower resizing.

It was believed that players who take immediate strategic measures will be the dark horses. Be it store rationalization, change of supply chain, consolidation of operations, improvement in IT infrastructure, retailers need to think quickly to protect their margins.

The retail sector was also bearing the brunt of the liquidity crunch, the study said. “Slowing sales resulting in lower inventory turnover and increasing working capital requirements to fuel growth have resulted in liquidity pressures for many domestic retailers”.

According to industry estimates, October-December 2008 sales constituted nearly 40 per cent of the total sales in segments such as apparels and consumer durables.

To fight the slowdown, the consultancy expected the retailers to focus more on food retailing and consumer goods and shift away from lifestyle goods. It also expected the retailers to tap Tier II and Tier III cities to help boost profits on back of lower rentals and operating costs.

On a positive note, the consulting firm believed that the long-term outlook was still attractive. "The demographic and economic environment would add momentum to the slowing growth rate," the report said.

The Indian economy was expected to grow about seven per cent in fiscal 2008/09, against the nine per cent or above in the previous three years. But some analysts say growth in the fiscal year to March 2010 could be lower, as the impact of the global slowdown hits deeper.
5.6.2 Scenario of Organized Retail Sector in Global Financial Crises (2008-09)

Scenario 01

Economic crisis- Put Brake on expansion plan.
Indian retailer had changed their business strategy from aggressive expansions plan and put on hold.
Many market leaders like Future Group and RPG- Led Spencer’s put their expansion plan on pending or hold due to current slowdown in the market.

E.g. Vishal Retail-
Chairman & MD Ram Chandra Agarwal says, “we have frozen our expansions plans for rest of financial years.” Opening of 200 stores has been postponed due to economic crisis.

Subhiksha-
President Mohit Kumar says, “Every company is impacted by slowdown. It is not as if we have closed down all our stores.” This quarter we are going slowly on our expansions.

Scenario 02

Economic crisis- Retailers revised their revenue target.
Due to Global Economic crisis, decrease in demand especially in the high margin products and non food items, most of the retailers revised their revenue target.

E.g. Spencer’s Retail-
Spencer’s retail had revised its revenue target for 2008-09 from Rs. 1800 crore to Rs. 1500 crore due to slowdown.

Technopak –
Chairman, Arvind Singhal says, “There is uncertainty in the market & the company would not like to discuss the revenue target as they may have to revise them in the future.”
Scenario 03

**Economic crisis - Small is beautiful for retailers in gloom.**

With the unexpectedly sharp slowdown in economic activity, retailers had begun to opt for smaller and niche format rather than large and hyper format. This means shop sizes would be between 800 to 5000 sq. ft. Rather than huge flagship and experiential stores.

Retailers such as Reliance Retail, Future Group’s, Big Bazaar and Bharti’s Easy Day were moving ahead with smaller format, especially in the fashion & furnishing segment apart from food and grocery segments. Because ROI in smaller format is high (Rs. 14000 to 18000 yr/sq.ft.) and also low risk than bigger format (Rs 11000 to 14000 yr/sq.ft.)

Scenario 04

**Economic crisis - Footwear Retail Market walk steadily.**

The Indian footwear market walk steadily despite global financial crisis as Chinese products were losing their low cost tag and global major European companies like Adidas, Puma and Nike are likely to channel a part of their purchase and production from China to India and looking at India for low cost product.

According to Shushmul Maheshwari, chief executive, RNCOS, “Even the ongoing financial turmoil will not be able to significantly impact the demand for Indian footwear in global markets and grow over 20% through 2011.

This is because the demand for high quality footwear made in Europe or other regions of the world will certainly suffer a set back as people will prefer buying inexpensive, precisely, medium or low priced footwear and India definitely have an edge on this front.

Scenario 05

**Economic crisis - Retailers shutting down less profitable outlets**

The global meltdown was pinching the pockets of the companies which were taking hosts of measures including closing not so profitable stores.

E.g.

Foodland Fresh store of Rs. 500 crore RK Group had closed down several stores in Mumbai in Nov 2008.
Scenario 06

Economic Crisis- Credit problems for retailers:-
According to Nielsen report, overall retail market managed to grow by 2% for Q2 FY 09. The tightening consumer credit has hit the middle market.
Mr. Kishore Biyani, the pioneer of Indian retail said, “We are going to talk to FMCG companies to extend credit period to us. It’s always good to have longer credit period”
Mr. Ambeek Khemka of Vishal Retail said, “The panic in global credit market with report of job cuts have put consumers into saving mode. We don’t want to stick with unsold stock for long in a weak market. One needs longer credit period; else our cash flow will get restricted & impact our entire business. Footfalls have also been affected & we are analyzing the same.”

Scenario 07

Economic Crisis- Boom for Private Brand Label in India:-
The global economic crisis presenting an opportunity for Indian retailers to develop products suitable for the conservative Indian consumer who is now looking at value for money. Across the board, retailer expressed optimism in selling their Private Brand Labels.
Eg: Vishal Megamart had witnessed a surge in sale of private labels from 5-6% of total turnover to 17-18% in Nov 2008.
5.6.3 Remedial Strategies to cope up with Adverse Impact of Recession

Consumers need accurate information for making a purchase decision and low cost product availability at nearest region, to finish their shopping. Currently the changing market trends demands retail industry to expand its reach to more customer touch points so as to drive them to the retail points. The market always has a hidden potential despite the slum. To rectify the things, right solutions are always excavated. Whether the market growth is slower or faster, its potential should not leave unused. Anyway, new and innovative solution must be invented to answer the current market slump.

According to us, following are the some solutions which might be useful for retailers to overcome the global economic crisis.

**Low marketing and advertising budget:-**

Cutting down marketing and advertising budgets will reduce the financial burden on retail industry. Innovative marketing and effective advertising at low prices will be a brilliant move for the present day market trends.

**Low investment and high returns:-**

This is now made possible with the arrival of technology enabled marketing services. The retail industry should realize that it would be a fair advantage of including technology enabled marketing services to unfold the immense retailing opportunities in current slowdown in India due to global economic crisis.

**To modify the present communication channel:-**

The present channel for customer communication is apparently ineffective and involves high costs, which the retail industry has been following for the decades. This outdated communication channels should be modified according to the changing market trends. Now an uninterrupted marketing channel, which will be continuously tide to the shoppers, is needed to boost up the retail industry in current slowdown of market.
**Best alternative is online branding and marketing through effective presence:**

Now it is the time to find the right alternative for the retail industry to bring down the expenses and to move up in the current slow market with a speed. Online market is now creating enormous opportunities in retail business. To reach the online shoppers, online retailing is the best alternative solution for retail industry, through which online branding can be achieved.

Some advantages are sustainable over a long period of time while others can be duplicated by competitors almost immediately. Establishing a competitive advantage means that a retailer builds a wall around its position in the retail market.

Few important opportunities for retailers to develop sustainable competitive advantages are

(1) Customer Service and Customer Loyalty

(2) Human Resource Management

(3) Distribution and Information Systems

(4) Vendor Relations and Unique Merchandise

The retailing concept is a management orientation that focuses a retailer on determining the needs of its target market and satisfying those needs more effectively and efficiently than its competitors.

### 5.7 Foreign Direct Investment in Indian Retail Sector

The Indian government allowed 51% FDI in Multi Brand Retail. FDI in Single Brand Retail was already allowed, but that too with some conditions, including 30% local procurement. This Sections deals with various issues involved in FDI in Indian Retail Sector. The issues such as what is FDI in retail? Changes in Indian Retail Reforms, Impact of FDI on Farmers, Small Shops and infrastructure development, Will
international retailers in the short run and long run impact on Indian retail sector? Is FDI in retail a threat or not? Etc.

What is FDI in Retail?

Foreign Direct Investment (FDI) supplements domestic investment. Domestic organizations are benefited through FDI, by way of improved access to additional resources and up to date technologies with coverage to global managerial practices and opportunities of amalgamation into global markets.

The Government had conducted a study, on the subject of “Impact of Organized Retailing on the Unorganized Sector”, through the Indian Council for Research on International Economic Relations (ICRIER) in 2008. The ICRIER study highlighted important benefits to many stakeholders, such as consumers, farmers and manufacturers.

On the bases of this study and the experience of other countries, it is the Government’s judgment to allow 51%, FDI in multi-brand retail trading. It is likely to make possible greater FDI inflows into front and back-end infrastructure; technologies and efficiencies to release the potential of the farming value chain; additional and quality employment; and international best practices. This, in turn, is expected to benefit consumers and farmers in the long run, in terms of quality and price.

The 30% compulsory sourcing condition has been included to support local value addition and manufacturing. The enlarged level of activity, in the front-end, as well as in the back-end, resulting from greater FDI inflows, is expected to create additional employment opportunities for rural and urban youth. It is expected to give confidence existing traders and retail outlets to upgrade and become more efficient, thereby providing better services to consumers and better remuneration to the producers from whom they source their products.

There is no procedure to shortlist companies. Foreign investors keen of investing in retail trade (multi brand or single brand) in India are require submitting their applications in the Department of Industrial Policy and Promotion. Their applications are examined to determine whether the proposed investment satisfies the notified guidelines, before being
considered by the Foreign Investment Promotion Board, in the Ministry of Finance, for Government approval.
Opening up FDI will not only lead to a better assortment of products for sale and increased consumer choice, but also penetrate deep into the Indian economic activity and do much to improve the country's -- infrastructure and logistics.

5.7.1 Changes in Indian Retail Reforms

Indian retailing industry is basically owner of small shops. In 2010, bigger format convenience stores and supermarkets accounted for about 7.44% of the industry, and these were present only in large urban areas. India's retail and logistics sector employs about 40 million Indians (3.3% of Indian population).
Till 2011, Indian central government was unused to FDI in multi brand retail, unfriendly foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single brand retail was restricted up to 51 per cent ownership and a ritual process.
In Nov 2011, India's central government declared retail reforms for multi brand store and single brand store. These market reforms covered the way for retail modernization and competition with multi brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked activism, both in opposition and in support of the reforms.
In December 2011, under pressure from the opposition, Indian governments hold the retail reforms it reaches a compromise.
In January 2012, Indian Government permitted reforms for single brand stores welcoming anyone in the world to start operations in Indian retail market with 100% ownership, but forced the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi brand stores.
In June 2012, IKEA declared it has applied for permission to invest $1.9 billion in India and set up 25 retail stores. Fitch believes that the 30% requirement is likely to
considerably 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 has been welcomed by economists and the markets, however has caused protests and an confusion in India's central government's political union 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 Government of India permitted 51 per cent FDI in multi brand retail in India. The Indian Government managed to get the approval of multi brand retail in the parliament in spite of resist from the opposition. Some states will allow foreign supermarkets like Wal-Mart, Tesco and Carrefour to open while other states will not.

5.7.2 Impact on Farmers:

We are running a very ineffective retailing system in which the farmer gets very small and the consumer pays too much. The traditional system imposes high losses; it is reflected in paying less to the farmers and charging more to the consumers. So when these losses are reduced there will be a rise in prices to farmer and reduction of price for the consumer.

Our traders are exploiting the farmers today. In most states, the food ministry fixes on a small number of traders who will buy from farmers. This gives traders monopoly power. So there is agreement. The food ministries in most states are highly corrupt. They get money from traders and select two or three of them; these traders get monopoly powers and exploit farmers.

When the Wal-Mart, Carrefours and Tescos set up direct procurement mechanisms where systematic procurement systems are put in place and information about demand (product, price variety and quantity demanded) becomes more easily available, it becomes more difficult for the middlemen to dominate local geographies and restrict competition. The emergence of these supply chains that make transparency of information will bring significantly more competition in sourcing.
FDI is also beneficial since foreign players can invest huge amount in cold storage. At least 50 to 60% of our fruit and vegetables go waste for lack of cold storage and refrigerated transport. This needs high initial investment.

Also, if we carry in modern purchasing systems, farmers will be able to improve their product, diversify in the direction they have want, have assured off-take of their material. That requires not just FDI, it also requires reform. All the benefits to the farmers are going to come from modernizing the entire retail spectrum.

**Report of Boston Consulting Study “Case of Indian Tomato Farmer”**

The CII-Boston Consulting Group study found that an Indian tomato farmer earns about 30 per cent or even less of the final price paid by the consumer (in developed countries, that percentage can be as much as 70%). For this reason alone, farmers and producers should welcome this development (and for this reason alone, traders oppose it). Indeed, the Indian Farmer and Industrial Alliance (IFIA), a joint venture of the Consortium of Indian Farmers Associations (CIFA), recognized the potential benefits of eliminating middlemen and has expressed its support for opening the retail sector to foreign investment.

So if Wal-Mart or Carrefour wants to buy from farmers, they should be allowed to do so. That way, if someone is paying a farmer low prices, he can sell his produce to someone else. So the important thing is competition.

FDI will bring massive benefits not only to the farmer but to the society at large level. FDI will create more than 10 million new jobs. The beneficiaries in this case are the Indian consumers, the lower middle class, which will benefit from the well-paying jobs.

**5.7.3 Impact on Small Shops**

Any small kirana shopkeepers near a big modern shopping shop will suffer. But there are numbers of ways to avoid that. Small kirana shopkeepers do not get their supply from farmers but buy from monopoly traders. On allowing foreign retailers, these small kirana shopkeepers will buy from foreign retailers. These big operations will have economies of scale. And kirana stores will get supplies at the low price. So they will be benefited from it.
Another reason for that kirana stores will not go out of business. Many times, poor people buy on credit and not cash. Credit facility is not available in modern retail outlet. Also, in many big shops, consumers pay through credit cards; since poor people don't have credit cards, they will go to kirana stores. Small kirana shopkeeper is gives a personal touch to the consumer.

Finally, in a remote tribal areas, big shops won't work. No one will travel 100 km to buy from modern retail store. So corner shops have to be there. Don't expect them to be wiped out. They will have some competition in big cities, but will also have advantages, as they buy on low cost. The modern retail chains can also use small stores as local agents of modern retail stores.

5.7.4 Impacts on Infrastructure Development
The arrival of foreign retail chains has double impact.
First, those organizations set up supply chain and logistical capability, significant improvements in the infrastructure required to source, ship, shop and deliver products (cover a lot of areas for value chain and supply chain action, including storage, warehousing, and information-intensive operation).
Second, their entry and expansion tempt domestic competitors to invest in infrastructure and logistics, as well as really pace up the emergence of product standards (specially in perishables and personal consumables).

Wal-Mart (Foreign Retailer) and Small Indian Retailer
Wal-Mart presence could have a shocking effect on small Indian retailers as per a worldwide study. The consumers in the U.S. are geared to rush to modern retail markets, buying for a week buying for a month. That will not happen in India. The Indian case is one, where organized retail has 7% of the total retail market share. It would be an unexpected accomplishment if they twice that in six to seven years. We are least penetrated by organized retail shop.
In the short run the existence of organized retail chains in advanced country has not wiped out the small shopkeepers or what are called 'Mom and Pop' stores. They keep
hold of a personal touch which is absent in organized retail outlets. Also, their proximity to where people live is a immense benefit. FDI is frequently opposed on the basis that it will put mom-and-pop stores out of business. This is very improbable for a number of reasons.

The big-box retailers, when they venture into developing markets, do not use the same business model as they do in the U.S.

Wal-Mart, the most iconic of these organizations and the one most frequently cited as a threat to Indian mom-and-pop stores- is by no means the lowest-price retailer in China. Wal-Mart U.S. is based on "everyday low prices." The firm has an activities system that helps Wal-Mart to fight as a cost leader. The organization began by locating in rural areas and then moved to suburban and semi-urban areas in the U.S.

Consumers in India- different their American counterparts living in suburbia - do not drive miles and do mass purchasing, nor do they have huge storage space at home.

In India, China, Brazil, Indonesia, Thailand and Mexico, the huge majority of educated middle and upper classes live in the cities (and not in semi-urban and rural areas) where real estate is very costly and populace density is high. The foreign retailer will require making costly real estate investments. They will have a high variable cost of function. Their fixed, volume-independent costs are also likely to be higher than the mom-and-pop convenience stores. These foreign retail chains will operate with price points that are higher than those featured by the unorganized shops.

**Short Term Benefit from FDI**

Short Term Benefit from FDI in Indian Retail: Figures as per [Financial information services firm] CEIC data. In 2008 FDI was estimated US $35 billion and declined in 2009, 2010. In 2011 came it nearby US$27 billion. So if we analyzed the situation. Will global giant retail chains in the shorter term within 1 to 2 years, bring in US$8 billion to get back on track, the answer is probably not.

**Foreign Retailers' Actual Competition Will Be With The Domestic Multi Brand Retailers.**

A study by the CII and Boston Consulting Group anticipants the size of organized retail sector in India up to US$28 billion in 2010 to be 7% of the total retail market in India.
The study anticipates that the size of retail - total retail sector size, not just organized retail - would rise up to US$1.25 trillion by 2020 if the efficiencies that come from better competition and innovation of retail supply system were to be unleashed. In this situation, the study estimates that the size of organized retail could rise up to US$260 billion or about 20.8% of the total market. So even under this situation, the idea that a fractional segment that accounts for 20.8% of the total economic activity of the sector can drive the remaining 79% of that sector out of business does not stand the scrutiny of reason.

The CII/BCG study also predicts that if the organized retail sector is not modernized. The size of the sector will be about US$170 billion. This underperforms the earlier situation by about 35% or so. That difference could be a job creation deficit of about 1.4 million jobs with an even higher potential loss of economic product since organized retail pays better than local, scale-deprived mom-and-pop establishments. This is without consideration of other jobs that would not be created in economic activities that span infrastructure and logistics.

**Foreign Retailer Venture Abroad In the Following Three Stage.**

In stage one, set up a test case/pilot project. This can be done through a partnership with local retailer (with profit and risk distribution), or only some flagship retail stores that provide as brand broadcasters. The foreign retailer called it initial-stage entry strategy to learn lessons about the local markets. They evaluate demand, analysis merchandizing strategies and set up operational capabilities. In this stage, retailers bring in various investments to cover up their set-up costs and for establishing their sourcing path. This usually takes 2 years.

In the second stage, firms increase their demand path; they open new retail stores and boost both the scale of operations and scope of products that they feature. There is considerable investment in this phase in the form of real estate acquisition, putting in operational infrastructure, establishing sourcing relationship, establishing supply chain and huge logistics capability. This is volume-independent investment -- that is, investment meant to gear up for volumes of business to come, but not calibrated to the current volume of business.
In the third stage, the investment keeps pace with the rate of expansion. As volumes grow and urban and semi-urban retail locations get saturated, retailers look for new locations and bring in investment for growth in volumes. It is in the second stage and the third stage, which come after the initial 02 years.

5.7.5 Expert Opinion

_Is FDI in Retail A Threat or Not? Mixed Reactions:_

1. Kishore Biyani, CEO-Future Group said that "Finally, Foreign Direct Investment is here. That is very good news. There is no hazard to us (Indian retailer) from foreign retailers."

2. Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission said that “Modern retail was an expanding segment and it would more than twice in a very short time. I don’t think FDI in retail is a threat to small retailers in India. Those who say that the small Indian retailer would be hurt; I think they are wrong by the way.”

3. Pranab Barua, Business Director, Aditya Birla Group, said, "We have wait and watch what happen at the state level. This will help the retail sector.”

4. Jayati Ghosh, Indian economist predict that one Wal-Mart store can replace 1,300 small Indian retailers at the cost of 4,000 jobs, He highlighted: “The idea of modern retail, it may involve much higher labor efficiency at the front end but at the back it is an completely new supply chain system where jobs are being created not in selling physically to people but in improvement the supply.”

5. Arun Jaitley’s, BJP leader emphasized on foreign player will take advantage of India’s high-cost manufacturing base, He said, “Go to Lok Nayak Bhavan, where there are a lot of small retailers, every one of them talking about Chinese goods. We have a huge tendency to import. At present, Indian modern retail has no force to do domestic sourcing. If there is Foreign Direct Investment, they will be bounded to do a considerable amount of domestic sourcing.”

6. Praveen Kandelwal, Confederation of All India Traders (CAIT) said Small Indian retailers fear loss of occupation and income from mega stores of International
Corporation following the cabinet's decision to allow up to 51 per cent foreign direct investment in multi brand retail terming the move as "a bailout package for big corporation". The decision will not only hurt retailer but will also affect other sectors depending upon the retail trade.

7. Foreign Direct Investment in Indian Retail Sector will help farmers, consumers: PM Manmohan Singh  This decision will benefit to farmers and consumers and help introduce new technologies in Agri-marketing.

5.7.6 Conclusions and Recommendations:
At this instant organized retail contributes only 7% in overall Indian retail industry. It is bound to affect the kirana traders first and then the small and traders. For that unorganized player like small shopkeepers or what are called 'Mom and Pop' stores should develop some survival strategies like

- Small Indian Shops, traders need to take part in the modern retail change story and get into organized retail, upgrade and make venture of capital and better training and organize themselves under their banner through franchises
- Small traders first showed understand changing consumer behavior due to foreign players, makes the necessary changes as per the expectation of retail market.
- Modern organized retail offers superior prices to both consumers and producers and reduces the gap between the two. Modern organized retailers are capable to propose superior prices to consumers and producers to economies of scale in procurement, handling and logistics.
- Farmers can form groups for better bargaining with the modern retailers.
- Direct marketing to modern organized retail networks also helps the farmers in getting a superior price than through mandis. Regular supply agreement with group of farmers and modern retail outlets will help farmers to have sure
minimum income besides cutting down on wastage, transportation costs and providing fresh supply of food items to consumers.

5.7.7 Case Study

“Bharti Wal-Mart - Direct Farm Project”

Bharti-Wal-mart is arranging various activities to empower the farmer community for their inclusive growth. Through the many humanitarian activities and partnerships, Bharti Wal-Mart emphases on enhancing opportunities in the areas of skills training and local employment, education, women empowerment and community development. In combination with the Farmers’ Development Program in Punjab, community development activities have been executed in the village, Haider Nagar. Due to lack of sanitation facility, household tend to use the farm fields, thereby impacting yields and impacting the produce that is being supplied to stores. In order to improve the yields and the community’s way of life, Bharti Wal-Mart are working on the issues of Sanitation and Biogas, Awareness Building, Education, Health and Hygiene.

- **Biogas and Sanitation:** Ensured all the households have toilets in the village. 80 Bio Gas plants have been installed to help people preserve gas energy and use the waste generated from their toilets, cattles; and try to make the environment healthy.

- **Waste Management:** 20 Community Dustbins have been installed in the village to change in their living conditions and to provide them garbage free surroundings thus ensuring a healthy breathing.

- **Education:** All children in the village admitted for formal education program. Children’s’ group had been created to talk about children issues and came up with constructive solutions. All the nonschool going children had been given non-formal basic education required to mainstream them in the government schools. Hand pump has been installed, Sanitation block had been constructed, and school uniforms have been donated to create a better learning environment for children.
Health and Hygiene: A dispensary has been started in Haider Nagar to help people for medical facility in the village itself. More than 1500 patients get the benefits from dispensary facilities. Twenty Community Dustbins have also been installed in the village to provide better living conditions and provide them garbage free atmosphere.

In this case researcher want to suggest that opening about FDI in Retail Sector in India. FDI in Retail Sector is a win-win situation for farmers. Farmers would enjoy the benefit considerably from the option of direct sales to Modern organized retailers. If farmers sell directly to the modern organized retailers then certainly farmers gain higher profit than that they receive from selling in the mandis or to mediators. Entry of foreign players in Indian organized retail sector will lead to an increase in investments in both forward and backward infrastructure such as cold chain and storage infrastructure, warehousing and distribution channels thereby leading to development in the supply chain infrastructure in the long run.

Major global players such as Wal-mart, Carrefour and Tesco are supposed to bring a international scale in their negotiations with the MNCs such as Pepsi, Unilever, Coke, Nestlé, PandG etc. The enhanced storage infrastructure and cold chain will no doubt lead to a fall in losses of agriculture produce. It may also lead to elimination of intermediaries in the retail value chain and restrict other inefficiencies. This will result to good income for a farmer.
5.8 Brief Overview on “Major Changes in Organized Retail Sector.”

1. Change in Market Size: Retailing in India is emerging as one of the largest industry with total market size of USD 320 billion in 2006 and extended USD 421 billion in 2010 growing at healthy CAGR of 5% till date.

2. Change in organized retail market share 4% in 2007 to 7.44% in 2010 and projected to be 9 per cent of total retail market by 2015 and 20 per cent by 2020: In a span of last 10 years, organized retail was expanded in urban cities and makes an entry in semi-urban and rural areas.

   In 2007 organized retail market was 4 percent of the total retail, that is around Rs 67,310 crore and expanded to compound at 27 percent per annum, aggregating to Rs 1,75,103 crore (7.44 percent of the total retail) in 2010-11. Organized retail projected to be 9 per cent of total retail market by 2015 and 20 per cent by 2020.

3. Significant changes in retail format – Shift from Conventional Formats to Modern retail formats

4. Foreign Investment and Employment opportunity has increased in organized retail sector.

5. Change in reforms: December 2012: UPA government has hung the ‘Open’ sign for foreign retailers. The cabinet said OK for 51% FDI in multi-brand retail sector and 100% FDI in single brand. The policy will allow global retailers to set up shop in the country’s $450 billion (Rs. 2,500 crore) retail sector, and is aimed at drawing more overseas investment and taming inflation.¹⁶

5.9 Conclusion

Many changes have take place in organized retail sector over the last decade. This chapter paints a verbal image of the coming retail boom likely to happen sooner than later. India’s retail market has experienced enormous growth over the past decade. Organized Share of retail sector had increase up to 7-8 percent in 2010-11 from 4 percent in 2007. The retail industry in India gathered a new momentum with the establishment of different international brand outlets, hyper or super markets, shopping malls and
departmental stores. The organized retail segment in India is projected to be 9 per cent of total retail market by 2015 and 20 per cent by 2020. Hypermarkets would be the largest retail segment, accounting for 21 per cent of the total retail space by 2013–14. Change is only constant in the Retail World; survival in organized retail will depend on the ability to adapt the change.
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