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RESEARCH ARTICLE

A STUDY ON GROWTH OF RETAIL MARKET IN INDIA

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ABSTRACT

The Indian retail industry has come forth as one of the most dynamic and fast paced industries contributing 10 percent of the country's GDP and 8 percent of its employment. India is Asia's third and the fourth largest retail market globally offering massive investment opportunities. Organised retail in India has seen a continuous influx of players in to the market, but not all of them have tasted success yet because of factors like having initial investments that are required to break even with other companies. The Indian retail market environment is also ever changing with evolving consumer behaviour. Consumer experiences play a decisive role in their buying decision. Over the last decade we have gone from a liner retail focused model to today's iterative, digital-centric model of customer behaviour. Retail branding has become complex due to the presence of dual layered of objectives-stablishing a differentiated positioning of the retailer and its own line of goods, secondly, making the positioning attractive enough for successful off take of other manufactures brand. India's favourable macro-economic indicators, investor friendly policies and rapid growth in consumption are driving the growth of the retail sector in the country as a whole.

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INTRODUCTION

The word 'Retail' has been derived from the French word 'retailer' which means 'to cut a piece off' or 'to break bulk'. Retailing can be defined as procurement of varied products in large quantities from various sources/manufacturers and their sale in small lots, for direct consumption to the purchaser. Retailing is one of the biggest sectors in India and has witnessed multi fold growth post liberalization of the Indian Economy. The evolution of retail trade in India can be traced to the times when majority of trade was routed through formats such as Haats, Mandis and Melas. Mostly organised on a periodical basis and limited to a particular locality/village, such formats gained prominence. Almost everything from vegetables, household necessities to cattle's were bought and sold, either through monetary means or the barter system. The Indian retail industry is divided into organized and unorganized sectors. The unorganized retail comprises of the local baniya or kirana shop, and the other owner manned general stores. These retailers normally do not pay taxes and most of them are not even registered for sales tax, VAT, or income tax.

"Unorganized retailing" is defined as an outlet which is run locally by the owner or the caretaker of a shop who lacks the technical and the accounting standardization. The supply chain and the sourcing are also usually done locally to meet the local needs. Unorganized merchandising, refers to the normal formats of cheap retail, the native kirana retailers, the owner manned general stores, the convenience stores, hardware stores at the corner of one's street, small medical shops etc. Small- store (kirana) retailing has been one of the easiest ways to generate what is called self-employment as it requires a very limited investment in land, capital and labour. It is generally a family run business; there is lack of standardization and the retailers who run this store lack education, experience and exposure. Over the last two decades, the size, scope and complexity of retailing has undergone considerable change. There are many factors that have led to the growth of retail sector in India. Some of the primary reasons are advent of internet which can be better termed as digitization, rising purchasing power of consumers, urbanization and rapidly changing lifestyle of the consumers. Many retail consultants in India have approved of these reasons. There has been sharp rise and improvement in the consumption pattern of Indians which has made the retail sector grow and the sector is expected to record a growth of \$1.3 trillion by 2020.

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If this pattern continues then there is going to be a shift in consumer expenditure to \$3,600 billion by 2020 from \$1,824 billion in 2017. There is a positive tendency seen in the section of organized retail. The organized retail penetration is expected to reach 10 percent of the retail market which at present is about 7 percent. Consequently, the organized retail market is also going to grow and reach the level of 19 percent which is currently at the level of 9 percent, according to reports published by many retail consultants in India. This was mainly said, initially, by Anuj Kejriwal who is Managing Director & CEO, Anarock Retail. Generally observed, there has been a great penetration of the big brands in small cities and people of India are able to enjoy the foreign brands that previously were not within their reach. This can be directly linked to the betterment of purchasing power of consumers. Superior customer experience has noted intensity and the public are going for goods that a decade ago was not really in their lifestyle. There are many foreign brands that have established themselves firmly in the Indian market. They continue to flourish as the consumers are buying their products. This is a positive sign in terms of retail industry. Foreign Direct Investment is another reason why there is an increasing consumerism. With the liberalization of FDI, more and more companies are able to invest. With this we can also see a positive change in the lifestyle of consumers. Changing taste and preferences of consumers will bring India, at par with the consumption pattern of the developed nations. The government of India has taken the decision of allowing a 51% of FDI in multi brand retail and total of 100% FDI in a single brand. Such changes in policy have attracted many international giants to look for a favourable chance of prosperity in Indian retail market. Easing of FDI has made India enjoy the consumption pattern that is being followed globally.

Goods and Services Tax (GST) is another major step that has been taken in terms of retailing. This has given a boost to the foreign brands and they are highly interested in investing in the Indian market. When there is a single framework applicable to a large variety of investment procedure then the foreign brands are more interested in making a penetration in the retail market. Same is the present scenario in Indian retail industry. From unorganized retail there has been a shift to the organized retail that has done the trick of streamlining the process. When the procedure is long and tedious then the foreign brands refrain from investing. With this we can say that the Indian retail industry is marching steadily towards glory. There are many "markets" that offer opportunities in the Indian retail space. Therefore, while online mass retailers will look to create an offline presence, online "digital first" niche brands, backed by specialised manufacturing businesses, also hold value. The main objective of the paper is to study the growth and emerging trend in Indian retail market.

Objectives: 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. Keeping in view this fact the paper focuses on the following objectives

- To study the growth of retail market in India.
- To study the emerging retail trends in India.

- To study the future prospects of organized retail sector in India.

RESEARCH METHODOLOGY

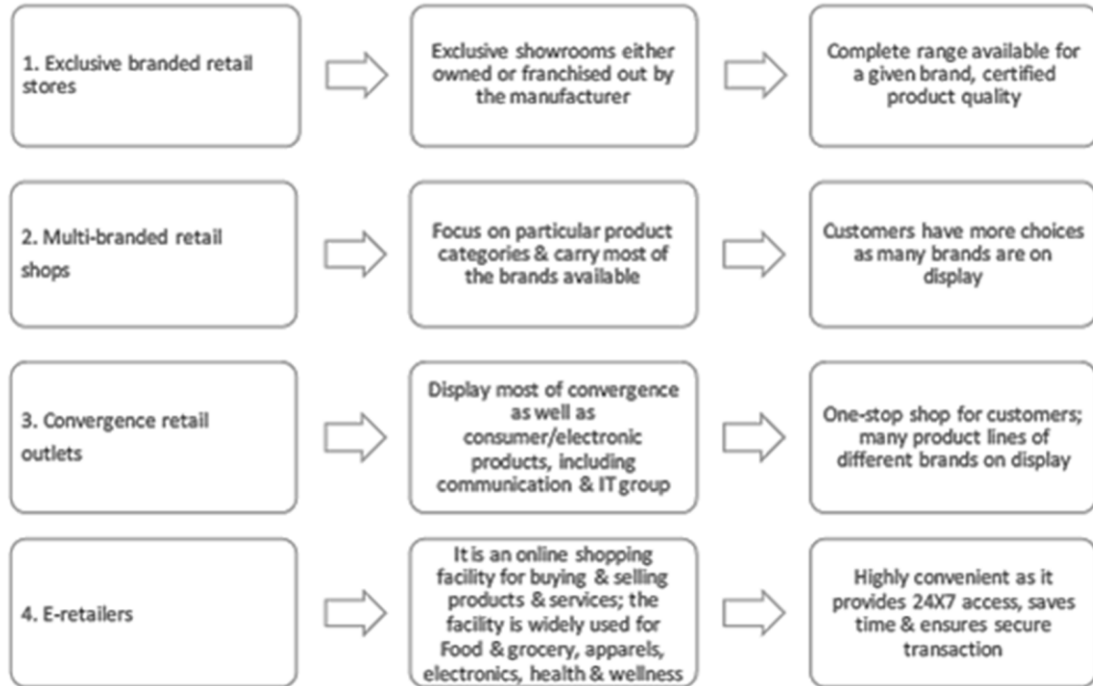
The data has been collected from various books, trade journals, government publications, newspapers etc. and research is descriptive in nature. Data presented in the form of tables and analysed in form of percent trends and chart.

Organized and Unorganized Retail: Organised Retail is characterised by high investment requirements, large premises, trained staff where retailers are licensed and are registered to pay taxes to the government. Unorganized Retail refers to the traditional form of retail often situated near residential areas. It is generally characterized by low rentals, low tax payouts with a majority of it being owner-managed and employing personal capital. It includes formidable mix of conventional Kirana shops, general stores, mom-&-pop stores, paan-beedi shops and other small retail outlets. Currently, the Indian retail market continues to be dominated by the unorganised retail (mom-and-pop stores and traditional kirana stores) accounting for about 88% of the total retail market while organised retail market is valued at about USD 95 billion, only about 12% of the sector. E-tail stands at about USD 24 billion, accounting for about 25% of the organised market or 3% of the total retail market in India. India's organised retail penetration is much lower compared with other countries, such as the United States which has organised retail sector penetration of 85%.

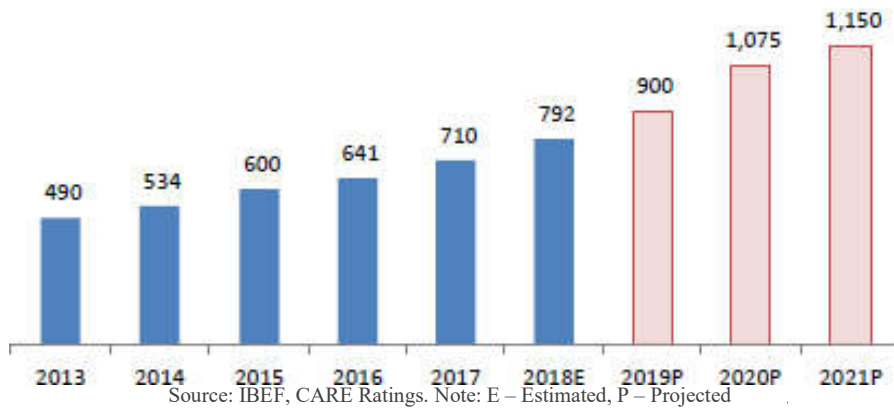
Organised Retail formats in India: Modern retailing in India has entered in form of huge malls and super markets offering shopping, entertainment, leisure to the consumer while the retailers experiment with a variety of formats, such as discount stores, supermarkets, hypermarkets to specialty chains. However, kirana shops still continue to score over modern formats primarily due to the convenience factor. The organized segment typically comprises of a large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring system. Retailing is no longer only stocking and selling but is about efficient management of supply chain, developing distributor and vendor relationship, customer service quality, efficient merchandising and timely promotional campaigns. Although largely unorganized, the Indian retail sector witnessed robust growth over the past few years. Food & grocery and clothing & footwear segment are the main revenue drivers in the Indian retailing, together accounting for approximately 75% of the market share in 2018. Over the past few years, many prominent players in the country like Tata, Reliance Industries, Aditya Birla and many others are investing significantly in the Indian Retail market as a result of which there has been a tremendous growth in the organised segment. Walmart entering India with acquisition of Flipkart in May 2018 was one of the major deals for the Indian retail industry. Many other progressive players stepped into the territory with long term goals to expand their business across verticals, cities, formats and segments.

Trends in Indian Retail: The year 1980 marked the onset of retail chains in India with the entry of textile majors such as Bombay Dyeing, S Kumar's, Raymond's etc. followed by Titan.

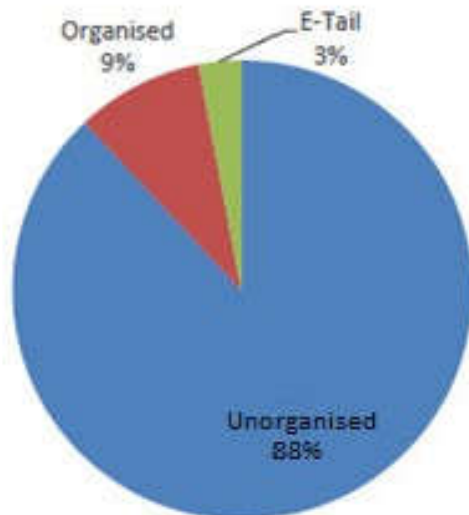
Organized retail formats in India



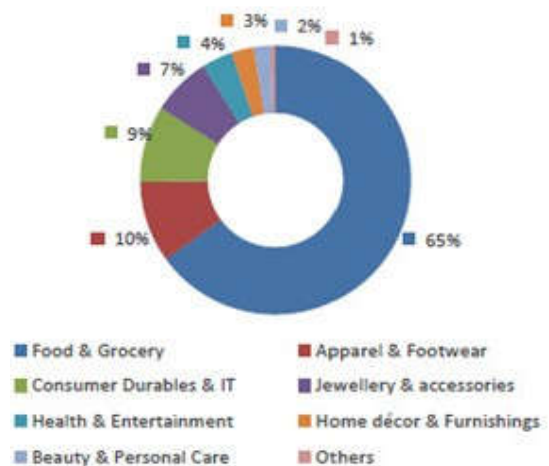
Market size of Retail Industry (USD Bn)



Segment-wise contribution in retail industry

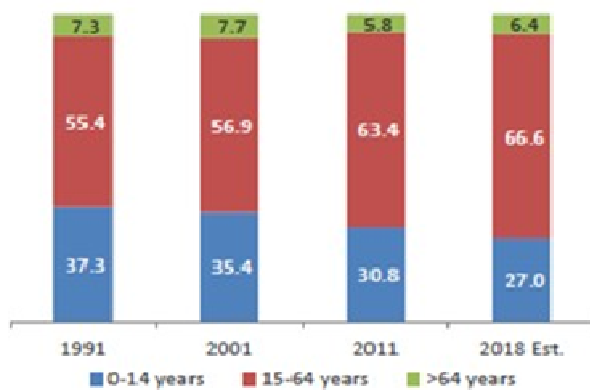


Segment wise contribution in organised retail

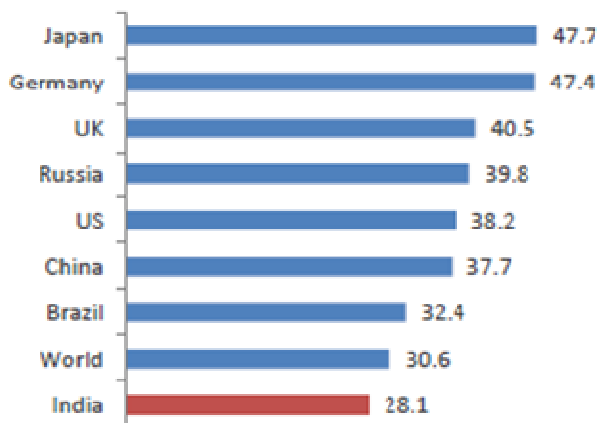


Source: IBEF

Age distribution of Indian population (%)

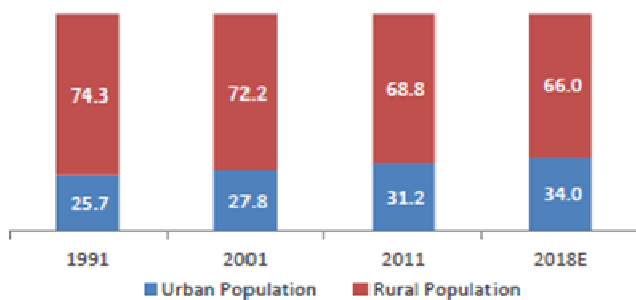


Median age of population – 2018E



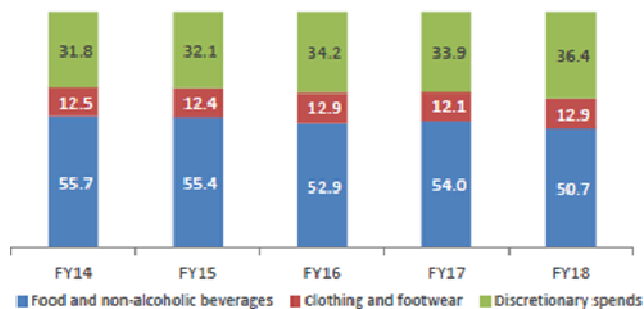
Source: CIA – The World Factbook

Population Division (%)



Source: Census, CIA - The World Factbook

Changing consumption patterns (%)



Note: Discretionary spends include – Furniture & furnishings, Transport, recreation & culture, etc Source: MOSPI, CMIE

Demand Drivers

Demographic advantage

- The growing Indian population has also led to increase in the 'earning population' (age group 15-60) of the country. The proportion of Indian populace in the age group of 15-64 years increased from 55.4% in 1991 to 66.6% in 2018.
- Considering the huge size of the Indian population, the lower median age implies a higher number of working people thereby clearly outlining the immense earning as well as spending potential of the Indian populace.
- Taking into account the age group below 25 years being one of the highest spending age group, the current age dynamics are expected to boost the retail sales in India. The median age of India is 28.1 years, one of the lowest globally in comparison to 38.2 years in the US, 7 years in Japan and 37.7 years in China.

Rapid urbanization: A majority of India still lives in the 'villages'. This statement no doubt holds true but the figures suggest that there has been a paradigm shift of the Indian populace in terms of rural-urban divide. The aspirations of higher income, higher standard of living etc. has drawn more and more people from villages to settle in towns and cities. This transition from rural to urban areas has led to an increase in the demand for goods owing to higher income and ever-expanding needs. The retailers, especially in the organised segment are therefore targeting the 'middle class' populace as well as 'tier II and III cities' by ensuring the availability of varied products at various price ranges to match the needs of a 'common man'. Rising income levels & growing per capita expenditure. In the last decade, Indian economy has progressed rapidly. Correspondingly, India's per capita GDP has gone up from Rs 98,405 in FY15 to Rs 142,719 in FY19 at a CAGR of 9.7% fuelling a consumption boom in the country. Correspondingly, the per capita personal disposable income surged from Rs 100,439 in FY15 to Rs 144,429 in FY19 at a CAGR of 9.5%. Similarly, the per capita private final consumption expenditure too rose from Rs 57,201 in FY15 to Rs 84,760 in FY17 at a CAGR of 10.3%. The growth in country's per capita GDP in turn has increased the disposable income of the populace ultimately driving the country's consumption.

Growing spread of plastic money & easy availability of credit: The growing use of 'plastic money' i.e. credit and debit cards has resulted in an increased spending amongst the consumers thereby fuelling the demand in the retail sector. With the acceptance of plastic money by almost all the retailers in the organised retail segment, the number of outstanding plastic cards in the country is on a rise. The incentives such as cash-back offer or discounts on selected sales linked to the plastic money have lured the Indian consumer to experience the pleasure of 'cashless shopping'. Credit card transactions witnessed a CAGR of 30% and Debit card transactions registered a CAGR growth of about over 16% between FY15 and FY19

Changing face of Indian consumerism – from necessities to luxury (Brand consciousness)

- With rise in income level of Indian populace and increase in acceptance of plastic money, discretionary spending has become important. In the year FY16,

Factors Driving the Growth of Indian Retail Market: Indian consumption and retail market growth is largely supported by the following factors:

Food & grocery and Clothing & footwear spending was recorded at 62% of the country's total spending while that of discretionary category was steady at 38%.

- Even with a declining share 'Food, Grocery and Beverages' segment remained the largest spending head but the growing consumer spending under the 'discretionary heads' such as healthcare, personal care products etc marked a noticeable feature of the shifting consumption pattern.

Rising growth in number of nuclear families

- The rapid growth of population, increased urbanisation and the unavailability of large real estate spaces have led to the growth of nuclear families in the country. The average number of person per household has reduced from 5.6 in FY81 to 4.9 in FY11.
- The growing number of households has not only pushed the demand for necessities but the combined mix of greater purchasing power and willingness to spend has resulted in the nuclear family's shifting focus towards luxury/semi-luxury products. This has thus led to the emergence of modern retail formats such as specialty retail, luxury retail etc.

Growing female working population

- On the backdrop of growing Indian economy during the recent years, the participation of female workforce in the country's economic activities has increased considerably. The proportion of the female workforce which accounted for 26% of the country's workforce in

FY71 has scaled to 31% during FY11. Notably, the percentage of working women involved in the organised industrial activities too has increased from 27% in FY81 to 47% in FY11. The higher purchasing power in the hands of 'working-women class' compared to the housewives enhances the ability of the former to spend much more comparatively

- Further the 'time constraint' factor also needs to be accounted for by the working women while making purchases of various day-to-day requirements. Capitalizing on the same, the organised retailers have increasingly emphasized on the 'one-stop shop' concept wherein all the household requirements ranging from food & grocery to apparel could be met under a single roof.

Road ahead

- With the Private Final Consumption Expenditure expected to grow by about 10-11% y-o-y till 2021 (has grown at about 10-12% historically), GDP expected to go up to ~7.3%, study expects the retail industry to register a growth rate of about 12-14% over the next 3 years and reach about USD 1,150 billion by 2021. With factors such as higher demand from consumers with higher incomes, job creations, improved standard of living, brand awareness, increased internet penetration, higher discretionary spends and higher participation of producers/retailers in the organised retail market, discounted and promotional pricing, increased number

of products and more private labels with retailers among others, the industry is expected to register growth going forward.

- The traditional retailers are expected to continue dominating the largest market share in the Indian Retail industry. However, with the expansion in the e-tail segment on the back of growing internet users, changing lifestyles, various delivery options, their share is projected to shrink going forward. In order to safeguard their shares and face the intensifying competition from online retailers, the traditional retailers are making huge investments for building their IT infrastructure.
- E-commerce is steadily expanding in the country where consumers have the ever increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the retail industry, and this trend is expected to continue in the years to come. Retailers could leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier II and tier III cities.
- Although the share of modern retail penetration in the country is not pleasing, there is still a lot to cheer as consumer spending patterns and increasing disposable income levels continue to evolve at a fast pace. With a number of international brands entering the market, there is ample opportunity and dynamism for the industry. Also, the existing players are working towards reinventing ways to keep up with the pace of growth in the sector. Nevertheless, there is a huge untapped potential for the growth of modern retail in the top six retail markets (Delhi, Tamil Nadu, Gujarat, Haryana, Maharashtra and Kerala) in India as per the Retail Potential Index of National Council of Applied Economic Research (NCAER).
- Nonetheless, the long-term outlook for the industry remains positive, supported by rising incomes, favourable demographics, steady farm incomes, entry of foreign players, growing urbanization and rising discretionary spends.
- With expected transition from offline stores (physical stores) to online stores by many players in the retail industry to compete with the local kirana shops, with home delivery, cash on delivery options, the shop sizes would comparatively decrease while the number of smaller stores might go up. Also, with markets being more organised, the shift from unorganised retail market to organised retail market is expected to happen at a faster pace.
- Also, to promote its Make in India campaign with job creation at its core, the government is considering allowing 100% foreign direct investment (FDI) in the multi-brand retail – as long as the products are made in India. However, the final decision is yet to be taken. If the government allows 100% FDI in multi-brand retail, the domestic industry is expected to get a further boost.
- Post GST implementation from July 2017 in the country, the prevailing revenue neutral rate for apparel industry continues to be at ~12% for branded apparels. Also, for footwear upto Rs. 1,000, a rate of 5% has been fixed and for footwear costing over Rs 1,000, 18% tax slab has been finalized. Nonetheless, with processes being formalized and removal of excise duty on products is expected to improve cash flows, lower input costs and

improve profitability of retailers. It has also reduced competition from the unorganised sector and has provided a level playing field to the organised branded players in the industry.

- Also, with the current tax regime, retailers have been paying service tax on many of their operating costs (for eg:- rentals paid - which constitute about 10-15% of the total operating cost of a retailer, attracted a service tax) and had no input credit for the same. However, with GST, the retailer will be able to set-off the service tax paid on the rent as input tax credit against the taxes to be paid on the final revenue.
- With the GST being consumption based tax regime, retail industry would now come under focus of the Indian states. Overall, on a broader level, various government initiatives including GST is expected to have a positive impact on the retail industry in India.

Conclusion

India's retail sector stands at the cusp of rapid growth, being one of the fastest growing retail markets across the world. As government of India has allowed 100 percent FDI in single branded retail through automatic route, Indian retail industry is going to be benefitted from foreign technical expertise and know-how, capital infusion, sophisticated frontend retail presence and new employment generation. With India's digitisation drive and rapid growth of E-Commerce, retail players should redesign their consumer interface rapidly and focus on the end-to-end digital integration of the value chain. For the domestic retail industry, there is a huge untapped potential in product categories such as food and grocery, consumer durables and home appliances, apparel, travel and tourism. As India is witnessing a significant increase in purchasing power, rapid global integration and changing consumer lifestyles, the industry is poised to grow faster in terms of its productivity, competitiveness and efficiency in the days to come.

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