ORGAINIZED RETAILING UNDER NEW RETAIL POLICY OF INDIA

- NEW OPPERTUNITES AND CHANLLANGES

Umesh Kumar Yadav[#1]
[#]*Faculty, Department of Business Administration.*
Yogoda Satsanga Mahavidyalaya Centre for Vocational Studies
Ranchi University Ranchi, Jharkhand
[1]Email: umesh@ysmcvs.org

***Abstract*-The liberalization of current retail policy of India allowing 51 per cent of foreign direct investment (FDI) in Multi Brand Retailing business has opened the new avenues for both domestic and global retailers to expand their domain of retail business in India. Many assumes that the new policy will bring foreign capital through FDI will improve domestic infrastructure, help to expand existing retail businesses through joint ventures and acquisitions, bringing advance technology and foreign expertise to yield efficiencies in the supply chain, enabling better reach to markets to producers, and achieving economies of scale. Many advocates of FDI in retail also believe that this is the much awaited major economic policy that could arrest economic downturn, create millions of new jobs and help in development of lagging industries and ancillary units. This article attempts to analyze and underline the scope of organized retailers under the new retail policy of India. It also presents the implications of new retail policy in form of opportunities and challenges that the retailers have to face due to its implementation.**

***Keywords* - Retailing, Multi Brand, Foreign Direct Investment, Organized Retailer, Supply Chain, Infrastructure.**

I. INTRODUCTION

An important aspect of the Indian retail business is the emergence of organized retail. It refers to trading activities undertaken by licensed retailers, that is, those who are listed for sales tax, income tax, etc. These include the corporate supported hypermarkets and retail chain stores, and also the privately owned large retail company. There has been a significant growth in organized retail business in the recent years and it is also assumed that it will continue to grow at a much faster rate in the near future. Major big Indian business houses like Tata, Reliance, AV Birla Group, Future Group, Landmark group, and RPE-SG groups had already entered this area and have also announced very ambitious future expansion plans. According to the study conducted by NCAER, based on its *Market Information Survey of Households (MISH)*, has projected that the consuming class consisting of the "aspirers", the middle class and the rich with annual household income of above Rs. 90,000 will rise from about 336million in 2005-06 to 505 million in 2009-10. This implies a enormous growth potential of retail business in the country. The sales of the Indian retail industry have been about US$ 322billion (Rs. 14,574 billion) in 2006-07, amounting to about 35 per cent of India's GDP. **It is the seventh largest retail market in the world**. Indian retail industry is projected to grow to about US$ 590 billion by 2011-12 and further to over US$ 1trillion by 2016-17. This works out to an annual compound growth rate of about 13 per cent during 2007-12 and a slower 11 per cent during 2012-17. In India, organized retail contributed roughly 4 per cent of the total Indian retail in 2006-07, which is very small even compared with most of the emerging market Economies. Many Global Retail corporations (like Gap, Tesco, Versace, K-Mart/SEARS, IKEA, NEXT, ZARA, Carrefour etc) are also seeking to come India and set up retail chains either independently or in collaboration with big Indian retail companies. But their entry is restricted due current retail policy of India. The new policy on retail business passed by Central government of India on September 14, 2012 allowing 51 per cent of foreign direct investment in multi brand retailing will open new avenues for both domestic as well as foreign retailers to grow and expand their existing domain of business in the giant and rapid flourishing retail market of India. The new retail policy not only help to bring foreign capital into the domestic market through FDI but also play a important role in improving domestic infrastructure, minimizing agricultural wastes, stabilizing prices through competition and providing boost to foreign exports. It will also help to pull some lagging industries, such as garments, leather, food processing, manufacturing, and warehousing by forming tie-ups with organized retailers. The foreign direct investment in the Indian retail sector has presented both opportunities and challenges for domestic players. Some of the big domestic players hope to remain independent in the long run and for most others, FDI is a big opportunity because it will open new gates to form joint ventures with global giants (like Bharti-Walmart) and to bring foreign capital, expertise and technology to improve their current performance in their existing business.

II. Current Policy on FDI in Multi Brand Retail: An Overview

The UPA government's decision of September 14, 2012 allowing 51 per cent FDI in multi brand retail and relaxing key conditions to investment in the open single brand retail sector. Till date the FDI was prohibited in retail trading, except single brand retail trading, in which FDI up to 100 percent is allowed subject to specified conditions. The reform mandates that a foreign retailer can open its outlet only in those cities which have a population of more than 10 lakh as per the census of 2011 and may also cover an area of 10 kms around the municipal corporation or urban agglomeration. According to FDI policy norms the minimum investment made by a foreign retailer should be $ 100 million, in the first three years. Out of the total FDI, 50 per cent must be invested in the back end infrastructure which does not include real-estate cost. It includes investment in the establishment of processing plants, manufacturing units, distribution channel, warehousing and logistics. The minimum investment in establishment is equivalent 1 million sq. ft. or 10-15 hypermarkets or departmental stores. At least 30 per cent of value of products being sold met from local micro medium and small scale industries over a five year period. It also bans, Retail trading in any form, by means of e-commerce, and would not be permissible, for companies with FDI, engaged in multi-brand retailing. The central government has given a complete autonomy to the state government to permit or disallow FDI. They are empowered to either use the same legislation or create their own policy.

According to the new policy in multi brand retailing in India FDI is prohibited in the following sector of economy:

a) Atomic energy and railway transport (other than mass rapid transport)
b) Real estate business or construction of farm houses
c) Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.
d) Lottery business, including government / private lottery, online lotteries, etc.
e) Gambling and betting, including casinos
f) Chit funds
g) Nidhi Company
h) Trading in transferable Development rights (TDRs)

III. Organized Retailing: Global Scenario

There has been a creeping internationalization of retail business over the recent period. As home markets have become crowded due to high competition and the opportunities in emerging markets are increasing, modern retailers from developed countries have been moving towards new markets. The share of organized retail business varies from developed to developing countries. In developed countries like USA, United Kingdom, France, Germany the share of organized retail is more than 80 per cent. Where as in case developing countries like India, Pakistan, Brazil, China etc. it is less than 40 per cent. (Table: 1)

Table 1
Share of Organized Retailing in Some Major Countries

Country	Total retail sales(US $ Bn)	Share of organized retail (%)
USA	2983	85
Japan	1182	66
China	785	20
United Kingdom	475	80
France	436	80
Germany	421	80
India	322	4
Brazil	284	36
Russia	276	33
South Korea	201	15
Indonesia	150	30
Poland	120	20
Thailand	68	40
Argentina	67	1
Pakistan	53	40
Philippines	51	35
Malaysia	34	55
Czech republic	34	30
Vietnam	26	22
Hungary	24	30

(Source: Planet Retail and Technopak Pvt. Ltd.)

The lower penetration of organized retailing in developing economies provides good opportunities for global retailers to expand their domain business in these countries. Another advantage that the developing countries provides is favorable demographics that there will be plentiful supply of workforce and consumers in the younger age groups. Besides, this demographic shift will make the developing countries more dynamic and favorable destination for them to grow at a much faster rate than the developed world. Driven by these trends, it is expected that the global retailers in developed countries will increasingly move towards the markets of developing countries for growth and expansion. The new retail policy of India permitting 51 per cent FDI in multi brand retailing in India will provide ample of opportunities for global organized retailers **(Gap, Tesco, Versace, K-Mart/SEARS, IKEA, NEXT, ZARA, Carrefour etc.)** to grow and expand in the retail market of India. They can enter into the retail markets of India either independently or in joint ventures with domestic retail firms. For instance, American retail giant Wal-Mart has already entered into retail market of India with Bharti Enterprises through joint venture in cash and carry segment named Bharti-Walmart. According to the Deloitte-Stores Report, on an average each of the top 250 retailers in the world have operated on an average in 5.9 countries in 2005-06 (July-June) against five countries in 2000-01 (2007). Foreign business accounted for 14.4 per cent of retail sales of these companies in 2005-06 up from 12.6 per cent in 2000-01. The retail sales growth of companies which have ventured into foreign markets has been faster than those that have confined themselves to home markets.

Opportunities for Increasing the Scope of Organized Retailing in Developing Economies

- Rapid growing economy.
- Increasing urbanization and industrialization.
- Availability cheap labor and raw materials.
- Favorable demographics,
- Growing consumer classes,
- Alteration in life style and family structure.
- Increasing wage and salary
- Increasing disposable Income.
- Conducive business environment due to LPG.

Organized Retailing: Indian Scenario

In India, organized retailing business has been started in the late 1990's. There has been a massive growth in organized retail since 2002-03 and its growth was reasonably fast during 2006-07 (about 20 percent per annum during last three years). Indian organized retail business is chiefly dominated by major domestic retailers like **Big Bazaar, Pantaloon, Shoppers Stop, Spencer, Reliance Retail, Trent, Westside, Spencer**, **Lifestyle etc.** The study conducted by ICRIER estimates that in India the total retail business will grow at the rate of 13 per cent annum from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12. The unorganized retail sector is also expected to grow at the rate 10 per cent per annum approximately with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion. Organized retailing, which constituted a low 4 per cent of total retail business in 2006-07, is estimated to grow at the rate of 45 to 50 per cent per annum and will attain a 16 per cent share of total retail by 2011-12. In short, both organized and unorganized retail are not only bound to coexist but also achieve rapid and sustained growth in the coming years. Major large Indian business houses like **Tata, Reliance, AV Birla Group, Future Group, Landmark group, K Raheja Group and RPE-SG group** have already entered in this area and had announced very ambitious future expansion plans. For instance reliance is committed to invest Rs 4, 500 crore for expansion over the next three years. Kishore Biyani, and the Bharti Group, controlled by the Rajan Mittal, is expected to spend more than Rs 800 crore each over the next couple of years on their retail expansion. Biyani is going to acquire 20 million sq. ft of retail space by investing Rs 800 crore (Table: 2). During the last few years the high economic growth of in India has lead to rapid rise in disposable incomes, supported by favorable demographics placing incomes on younger population, less dependency with changed life style and rapid urbanization are some of the major factors that are boosting the retail markets of India.

Table 2

Future Investment by Major Indian Retailers to Increase their Shopping Space

Organized retailer	Future Investments	Additional Shopping space
RELIANCE RETAIL	1000 crore	2.5 million sq. ft
BHARTI-WALMART	Rs. 900-1000	1.5 million sq. ft
SHOPPERS STOP	Rs. 900-1000 crore	1.5 million sq. ft
FUTURE GROUP	Rs. 800 crore	2.5 million sq. ft
LANDMARK GROUP	Rs. 250 crore	8 million sq. ft
ADITYA BIRLA GROUP	Rs. 150 crore	3 million sq. ft
RPG-SG GROUP	Rs. 130 crore	3 million sq. ft

Source: Businessworld May 2013

IV. Profit Margin

The share of product category in modern retail formats is determined by the level of profit margin retailers make and the consumer adoption rate. Modern retail penetration and consumer adoption rate is highest in the apparel and clothing segment. The firms' competition strategy can be well differentiated in the lifestyle and the value segment. Most of the retailers command high margin of profit in lifestyle segment where as in value segment they are mainly cost focused. For instance, an organized retailer gains an average of 30 per cent gross margin or above on MRP across gents', women's, and kids' wear on branded labels. In the case of in house brands or private labels, clothing margins are typically higher than 60 per cent. In the grocery and food segment, grocery covers around 45 per cent of store space in FMCG and staple food products across hypermarket, supermarket, and discount store formats. The profit margin in FMCG products category is very tight because large suppliers control the brand power and store shelf space at local neighborhood stores. In staples and lesser- known FMCG products, however, retailers gets 13 per cent profit margin on the cost price (Table: 3). In the absence of national brands in staple food products, in house or store branded private labels are becoming popular and fetch up to 12 per cent average margin.

Table 3

Organized Retailers' Gross Margin (per cent)

Product category	Margin For Private Label (%)	Margin General (%)
FMCG	13	1-2
Staples	12	
Clothing	60	30

Vegetables and Fruit	30 Seasonal & Exotic Vegetables and 40 Fruits	10

(Source: Planet Retail and Technopak Pvt. Ltd.)

V. Retail Models

Retail firms are adopting a combination of various types of store models for rapid expansion in different parts of the country, depending upon the future prospects of business. It includes, mega (supermarkets and/or having hypermarkets shopping space 3,500-5,000 sq. ft), medium (department store and/or specialty store with shopping space 1,000-2,000 sq. ft), and small size stores (convenience store and/or discount store with shopping space 7,50-1,000 sq. ft). These stores are strategically located through out the cities and benefits firms in several ways. First in attaining critical mass, second in achieving economies of scope and the third is to reach out to consumers in the local neighborhood locations. The major Indian retail players are Pantaloon, Shoppers Stop, Bharti-Walmart, Reliance Retail, Trent, Westside, More, Reliance fresh, Lifestyle etc.(Table 4)

Table 4
Formats Adopted by Major Retail Players

Business Group	Retail Stores	Retail Models
FUTURE GROUPS	Big Bazaar, Food Bazaar, Pantaloons, Central, Fashion Station, Brand Factory, Depot, aLL, E-Zone etc.	Hypermarkets & Supermarkets
TATA GROUP	Westside, Star India Bazaar, Steeljunction, Landmark Croma	Hypermarkets, Supermarkets & Specialty store
RELIANCE RETAIL	Reliance MART, Reliance SUPER, Reliance FRESH, Reliance Footprint, Reliance Living, Reliance Digital, Reliance Jewellery, Reliance Trends, Reliance Auto zone, iStor	Hypermarkets, Supermarkets Departmental store & Specialty store
ADITYA BIRLA GROUP	"More" Outlets	Hypermarkets, supermarkets
K Raheja Corp Group	Shoppers Stop, Crossword, Hyper City, Inorbit Mall	Hypermarkets, Supermarkets Departmental store & Specialty store
BHARTI ENTERPRISES	Bharti-Walmart	Cash n Carry
RPG-SG GROUP	Spencer's Hyper, Spencer's Daily, Music World, Au Bon Pain (International bakery cafeteria), Beverly Hills Polo Club	Hypermarkets, Supermarkets Departmental store & Specialty store

(Source: KPMG in India analysis, Format Choices by Indian Retailers)

Opportunities for Organized Retailers

- **Foreign Capital inflow in domestic firms** – Small retail companies can gain from new retail policy by selling their stakes to foreign players. This money obtained through selling stake can be channelized by domestic firms to buy new assets, plant and machinery or to create back end or front end infrastructure to expand their business in their market.
- **Formation of joint ventures** – The new retail policy facilitate in forming new ventures between domestic retail players and foreign retailers. It will not only bring the foreign capital but also advanced technology and foreign expertise for domestic player to improve their business activities. For example, Bharti Enterprises the Indian telecom giant has joined hand with US retail giant Wal-Mart to operate in wholesale market through its cash and carry outlets.
- **Value addition to domestic products** – The foreign expertise and advanced technology will help to overcome inbuilt inefficiencies and wastage in the supply chain. India loses 230 million tones of fruit and vegetable annually due to lack of required technology and expertise.
- **Infrastructure development** – Indian organized retail business requires good infrastructure to grow and expand rapidly. The global capital brings through FDI will help to strengthen supply

chain and developing ancillary unit. It includes investment in processing plant, manufacturing units and distribution channel development, warehousing, logistics, quality control, packaging and agriculture produce infrastructure.

- **Increasing foreign exports** – The out sourcing of technology and critical resources will improve and enhances production capabilities of domestic producers and farmers and can potentially export to international market. For instance Wal-Mart expects to source and export some $ 1 billion worth of goods from India.
- **Economies of scale -** Outsourcing of technology, Critical resources, Utilizing foreign expertise and improvement in infrastructure leads economies of scale. It will help organized retailers to reduce to their cost and increase the margin of profit.

Challenges for Organized Retailers

- **Poor infrastructure** – The growth of organized retailing is constantly impeded by poor infrastructure in India. India lacks both back end and front end quality infrastructure. It includes power, transportation, (mainly roadways to connect various inputs to retail industry), warehousing facilities, including storage and refrigeration (to store perishable goods) and finally well planned quality retail space to deliver goods to the target market.
- **Real Estate problem** – India's per capita retail space is the lowest in the world at just about 2sq. ft. when compared to the US figure of 16 sq. ft. Therefore, the industry's need for real estate, which is on rise, could well justified. However, this along with the overall development of the economy has pushed the costs of real estate in major metros and tier-II cities to exorbitant heights adversely affecting the finances and subsequent expansion plans of organized retailers.
- **Low productivity** – McKinsey study claims retail productivity in India is very low compared to international peer measures. For example, the labor productivity in Indian retail was just 6% of the labor productivity in United States in 2010. India's labor productivity in food retailing is about 5% compared to Brazil's 14%; while India's labor productivity in non-food retailing is about 8% compared to Poland's 25%.Training and development of labor and management for higher retail productivity is expected to be a challenge.
- **Delay in government clearances** – India has one of the most corrupt bureaucracies in the world. Besides red tapism in government bodies and agencies leads to delay in providing clearances from local, state and central government agencies. These issues can give a negative blow to the business sentiment foreign organized retailers.
- **Political interferences –** There are a number of political parties which are strictly opposing FDI in retail for their political interest. The national parties can prohibit foreign retail business in those states, in which their party is running or supporting the government. It can create an unfavorable business environment and divert foreign retailer to other countries. In past years reliance's hypermarket and retail chain has face serious agitation from some political parties and local traders in their operating area.
- **Autonomy to States to Define their Retail Policy –** The current retail policy provides autonomy to the states government and union territories to take their own decisions regarding the implementation of the policy. This could leads to variation in state government polices regarding laws, tax, licensing systems and stamp duties across states. It could raise operating problems when organized retailers expand nationally.
- **Market complexities** – While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well it includes geographically dispersed population, price sensitive customers, lower margin, complex distribution network, little use of IT systems,

limitations of mass media and existence of counterfeit goods.

- **Ban on E- Commerce –** E - commerce is a cost effective tool for delivery product into the market. But Restrictions on online marketing and trading results in high cost dealing with competition faced by domestic online players.

VI. Conclusion

The new retail policy provides ample of opportunities for growth and expansion for both national and transnational retailers in India but also help to enhance their productivity by expanding the domain of their business. FDI in multi brand retailing will improve domestic infrastructure, help to expand existing retail businesses through joint ventures and acquisitions, bringing advance technology and foreign expertise to yield efficiencies in the supply chain, enabling better access to markets to producers, and achieving economies of scale. The tie ups between organized retailers and domestic manufactures will help in pulling some lagging industries of the economy and facilitate in the development of several ancillary units like food processing, packaging, warehousing and logistics. But these dreams cannot be realized until and unless it is backed by favorable business environment, good domestic infrastructure and the support of state and local government bodies to run the business smoothly in their respective target markets.

References

[1]. Swamy Subramanian, “FDI in retail” Feb 24, 2005. The ICFAI university Press “ THE ANALYSIST’’Carted Financial Analyst.

[2]. CRISIL Research, 2007. Organized food retailing can increase rural income; cut inflation Resultant increase in rural spending can boost GDP, *Insight in Industry*, June.

[3]. Aggarwal, J.P (1980), determinants of foreign direct investment : A survey weltwirtscaftliches Archiv, Vol. 116

[4]. Foreign Direct Investment magazine http:// fdimagazine.com

[5]. Indian Retail Sector Analysis (2006) – Market Research Report, researchandmarkets.com

[6]. Singhal, Arvind, “Indian Retail: The Road Ahead” www.eretailbiz.com.

[7]. Singhal, Arvind, “Changing Retail Landscape, www.ksa-tecnopack.com

[8]. Ganguly, Saby, Retailing Industry in India, www.indiaonestop.com

[9]. Joseph Mathew, Soundararajan Nirumpama and Sahu Sanghamitra May 2008 “Impact of Organized Retailing On Unorganized Retail Sector, Indian Council For Research On International Economic Relation New Delhi, pp. 91-94.

[10]. Aillawadi L. Kusum, Krishna Aradhna and Kruger W. Michael, August 2010 “When Wal-Mart Enters: How Incumbent Retailer React and How This Affect Their Sales Outcome”, Journal of Marketing research vol.XLVII pp. 577-593.

[11]. Radhika Neela, “Changing Trends in Retailing and FMCG” Industry in India”, Marketing Journal-ICFAI, February 2005.

[12]. Prakash Ravi R., Subha M., and Sarma Lamanya ”Organized vs. Unorganized Retailing, Retail Management, New Century Publications, New Delhi, pp. 169-181.

[13]. Chatterjee Purvita “ Advent of Merchandizing”, Business Line, Dec 5 2002

[14]. Ramaswamy, V.S and Namakumari, S. Marketing Management. Delhi: Macmillan India Ltd.

[15]. Kotler P., Keller L. K.,Koshy A. and Jha M. “ Marketing Management”, (13th Ed.) New Delhi, Pearson Education, pp. 432-451.

[16]. Coughlan A., Anderson, E. Stern, L.W., and EL-Anasary, A. Marketing Channels, 7th Edition London: FT Prentice Hall.

[17]. Levy Weitz, “Retailing Management”, Tata McGraw Hill Publishing, 5th edition.

[18]. Gilbert: Retail Marketing Management, Pearson Education.