EMERGING RETAIL TRENDS IN INDIA

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ABSTRACT

In this section, some of the significant trends that are likely to emerge and gain prominence in the future have been highlighted below.

Small towns with a population of 0.5 – 1 million are witnessing a defined increase in disposable income coupled with high inspirational levels leading to enhanced spending on consumer goods along with lesser aversion to credit. With consumption in metros like Mumbai, New Delhi, Bangalore, Hyderabad, Kolkata and Chennai already being exploited, manufacturers and retailers of products such as personal computers, mobile phones, automobiles, consumer durables, financial services etc are increasingly targeting consumers in these Tier-II cities and towns. Retailers are introducing contemporary retail formats such as hypermarkets and supermarkets in these new pockets of growth.

Prominent Tier-II cities and towns, which are witnessing a pick-up in activity, include Surat, Lucknow, Dehra Dun, Vijaywada, Bhopal, Indore, Vadodara, Coimbatore, Nasik, Bhubaneswar, Varanasi, and Ludhiana etc. The ‘retail boom’, 85% of which has so far been concentrated in the metros is beginning to percolate to smaller cities and towns. The contribution of these tier-II cities to total organized retailing sales is expected to grow to 20-25%.

Mall development activity in these small towns is also picking up at a rapid pace, thereby, creating quality space for retailers to fulfill their aggressive expansion plans. Keeping in view the relatively smaller size of the market, the average size of a retail mall in Tier-II cities ranges between 100,000-120,000 square feet in comparison with the larger metros where a number of malls measure over 500,000 square feet.

Social trends of a country have impact on the scheme of growth of food retailing in a country. India is a country that is vast geographically and diverse culturally. This has taken its toll on food retailing with retailers having to adapt to the local cultures and palates of the are in which they have established or plan to establish. This is a major reason for many or most retailing chains.

Restricting their operations to a certain part of the country. But the trends now are slowly moving towards cultural integration where people of all states and diametrically opposite cultures tend to try out foods and materials of other states and communities. This movement towards social integration would make it very feasible in the near future for retailing chains and erstwhile local chains to spread across the country. Increased income levels and more women willing to make use of their education by joining work has increasingly affected the shopping pattern that is moving towards fulfilling the need of convenience shopping in the form of Supermarkets (now graduating to Hyper format) home deliveries. Indian consumers is quality and price conscious and this awareness would drive the retailers to rework their supply chain relationships. A recent
analysis shows that countries go through a distinct food consumption evolutionary pattern. In the first stage the focus is on obtaining basic dietary inputs, the second stage focuses on improving and building basic foods, before moving to the third stage of adding premium food to the diet. Most of urban India has already moved to the third stage and it is a great avenue for food retailers, if they could slowly introduce the rest of India to it. The future would witness creation of specific models/formats one for the upwardly mobile urbanite and the other for the rural markets.

**OVERVIEW**

India is the 4th largest economy in the world in Purchasing Power Parity (PPP) terms after USA, China and Japan and has grown steadily since economic reforms were initiated in the early 1990s. Gross Domestic Product (GDP) has averaged a growth of around 6% p.a. in the last 10 years, and has picked up further momentum in the last 3 years. In 2006, India became the second fastest growing economy in the world with a growth rate of 8.2%. The outlook for the future is equally buoyant given GDP growth forecasts for the current year at 7% and for the next 5 years at 7 – 8% per annum.

One of the key developments during India’s growth path has been a favorable shift towards the service sector, which now accounts for almost 50% of the total GDP. Led by services such as IT, telecommunication, healthcare and retailing, the services sector is likely to play an even more important role in the Indian economy.

Retailing in India is one of the significant contributors to the Indian economy and accounts for 35% of the GDP. However, this sector is in a fragmented state with over 12 million outlets operating in the country and only 4% of them being larger than 500 sq ft in size. This is in comparison to 0.9 million outlets in USA, catering to more than 13 times of the total retail market size. Thus, India has the highest number of outlets per capita in the world with a widely spread retail network but with the lowest per capita retail space (@ 2 sq ft per person as compared to 16 sq ft per person for USA).

![Organized Retailing - Market Size](image)

**Figure 1:**

Figure 1 Billion (INR 35,000 Crores) by 2007 and USD 24 Billion (INR 100,000 Crores) by 2010. Further, its contribution to total retailing sales is likely to rise to 9% by the end of the decade.
Figure 2: The retailing industry in India is currently estimated at USD 205 Billion (INR 930,000 Crores) and is expected to grow at 5% p.a. The current size of the organized retailing market is USD 6 Billion (INR 28,000 Crores), thereby, making up a mere 3% of the total retailing market.

Moving forward, organized retailing is projected to grow at the rate of 25 – 30% p.a. and is estimated to become USD 8. The following Figure 3 illustrates the break-up of organized retailing into various product categories.

Source – KSA Technopak Research

**Figure 3**: break-up of organized retailing
Food Retailers
There are a large variety of retailers operating in the food retailing sector. This is not surprising considering the enormous size of the market for food. However, traditional types of retailers, who operate small single outlet businesses mainly using family labour, dominate this sector. In comparison, supermarkets account for a minuscule proportion of food sales. This is because of the strong competitive strengths that traditional retailers possess. These include low operating costs and overheads, low margins, proximity to customers, long opening hours, and additional services to customers (such as home delivery). Nevertheless, supermarket sales expanded at a much higher rate than other retailers. This is because greater numbers of higher income Indians prefer to shop at supermarkets because of convenience, higher standards of hygiene and the attractive ambience.

Health and beauty products retailers
With growth in incomes, Indians have been spending more on health and beauty products. As in the case of other retailing sectors, small single-outlet retailers also dominate sales of health and beauty products. However, in recent years, a couple of retail chains specializing in health & beauty products have sprung up. At present, they account for only a tiny share of sales of these products. However, as Indians spend more on such products in future, their business will undoubtedly expand substantially. There is also scope for entry of more such chains.

Clothing and footwear retailers
Numerous clothing and footwear shops are to be found in Indian cities and towns, especially in shopping centres and markets. These are a mix of traditional and modern stores. Traditional outlets are small and cramped with little emphasis on alluring displays. They basically stock a limited range of cheap and popular items. In contrast, modern clothing and footwear stores are spacious with sample products attractively displayed in windows, sometimes with mannequins. Just as in the case of food retailing, there are also a huge number of retailers selling clothing and footwear in makeshift stalls or on footpaths. Because of their rock-bottom prices, which are much lower than prices of branded products, they attract a large number of customers.

Home furniture and household goods retailers
The home furniture and household goods retailing sector in India is dominated by small retailers. Despite the large size of this market, very few modern and large retailers have established specialised stores for these products. However, there is considerable potential for the entry or expansion of specialised retail chains and it is likely that this will happen during the next few years.

Durable goods retailers
The entry of a large number of foreign consumer durable companies into the Indian market during the 1990s after the government liberalised its foreign investment and import policies transformed this sector dramatically. A much larger variety of consumer electronic items and household appliances became available to the Indian customer. Competition among companies to sell their brands provided a strong impetus to the growth for retailers operating in this sector.

Leisure and personal goods retailers
Rising household incomes due to economic growth spurred consumer expenditure on leisure and personal goods in India. There are specialised retailers for each category of products in this sector. A few retail chains also emerged particularly in the retailing of books and music products. Another key feature of this sector is the popularity of franchising arrangements between established manufacturers and retailers.
Government policy for Retail sector in India

There has been vigorous opposition to foreign direct investment (FDI) in retailing from small traders who fear that foreign retailing companies would take away their business, lead to the closure of many small trading businesses and result in considerable unemployment. Given the political clout of the small trading community, because of their enormous numbers, the government has barred FDI in retailing since 1997. Therefore till January 2006, foreign retailers can only enter the retailing sector through franchising agreements. As a big move to liberalize Foreign Direct Investment (FDI) regime, on January 24 the cabinet approved new FDI norms for retailing. It has allowed up to 51 per cent FDI in single brand retailing. As of now, single brand retailers operate through the franchisee route and there is a strong view that FDI in this segment would not displace jobs or impact the local industry but help create employment. This most recent economic liberalization is good news for many of the world’s marketers of top labels, who currently sell their goods through the country’s handful of homegrown, domestically owned and operated retailers. Potentially, any single branded consumer product -- from apparel and shoes to mobile phones and cameras -- would be permitted to put up money for a majority stake in retail shops selling one brand.

Macroeconomic Performance – Retail Sales as a % of GDP and Consumer Expenditure

As indicated above, economic growth and rising consumer expenditure clearly influenced retail sales. However, an equally important factor in understanding the trends and structure of retail sales in India is income distribution and the impact of economic liberalization policies on different income classes. As elaborated later in this report, modern retailing formats constitute only a tiny segment of the Indian retailing industry. For the huge number of low-income Indian households, consumption needs are rudimentary and the prime considerations are affordability and price. These requirements are best met by small and local shops that are able to sell cheaply because of low overheads, utilization of family labour and by stocking a very limited variety of products. This explains the overwhelming dominance of small family businesses in the Indian retailing industry.

At the same time, economic liberalization policies led to higher growth in incomes for rich and middle class Indians. The impact on low income Indians, though positive, was more modest. These policies also exposed more affluent Indians to a much wider array of consumer goods. A good example is the liberalization of entry for foreign consumer good makers into the Indian market. This led to greater availability in the Indian market of a large number of consumer durables and non-durables, which were very difficult to obtain earlier. Similarly, greater competition among Indian companies (because of liberalization) forced them to enhance their range of products, place much greater emphasis on marketing and become more consumer-oriented. This offered considerable potential for the emergence of large corporate retailing outlets that can profit from then rapid spread of a "consumerist culture" among relatively affluent Indians. Not surprisingly, the number of department stores and supermarkets grew vigorously, albeit from a tiny base, in recent years.

Retail sales constituted about one-third of GDP during 2004-2006. The ratio of retail sales to GDP appears slightly higher in 2004 (35%) but this is because retail sales were unusually high in that year. A major reason for this was the hike in civil servant salaries. The share of retail sales as a percentage of consumer expenditure was about 47% during 2004-2006. One reason for the low share is was high consumer expenditure on services. Another cause, which is unique to developing countries like India with a big agricultural sector, is that a large amount of food is consumed on the farms and does not flow through the retail channels. Excluding 2000, the ratios of retail sales to GDP and consumer expenditure were steady over the review period. This is largely due to the fact that in a relatively low income country like India, much of consumption is of essential commodities.
SIGNIFICANT DEVELOPMENTS IN RETAIL SECTOR IN INDIA

The organized retail sector in India is poised for an emphatic phase of growth. Some of the significant developments in the last few years have been highlighted as under

**Scalable and Profitable Models**

Retailers have built scalable and profitable retail models across product categories. Figure 4

Some of the noteworthy retailers are

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Number of Stores 2003 – 04</th>
<th>Number of Stores 2006 – 07</th>
<th>Turnover (USD Mn) 2003 – 04</th>
<th>Turnover (USD Mn) 2006 – 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shoppers’ Stop</td>
<td>9</td>
<td>16</td>
<td>56 (250)</td>
<td>90 (404)</td>
</tr>
<tr>
<td>Pantaloons</td>
<td>8</td>
<td>13</td>
<td>28 (125)</td>
<td>56 (250)</td>
</tr>
<tr>
<td>Westside</td>
<td>7</td>
<td>16</td>
<td>17 (77)</td>
<td>27 (120)</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>3</td>
<td>7</td>
<td>17 (75)</td>
<td>51 (230)</td>
</tr>
<tr>
<td>Big Bazaar</td>
<td>3</td>
<td>10</td>
<td>11 (50)</td>
<td>44 (200)</td>
</tr>
<tr>
<td>Food Bazaar</td>
<td>-</td>
<td>16</td>
<td>-</td>
<td>33 (150)</td>
</tr>
<tr>
<td>Barista</td>
<td>67</td>
<td>120</td>
<td>7 (30)</td>
<td>10 (44)</td>
</tr>
<tr>
<td>Vivek’s Ltd</td>
<td>19</td>
<td>46</td>
<td>26 (117)</td>
<td>45 (201)</td>
</tr>
</tbody>
</table>

Figures in brackets indicate turnover in INR Crores

**Source** – Media reports

Figure 4

Further, large Indian corporate groups like Tata, Reliance, Raheja, ITC, Bombay Dyeing, Murugappa Group, and Piramal Group among others have either entered or expressed a serious interest in investing into organized retailing. In addition, foreign investors and private equity players are also firming up plans to identify investment opportunities in the Indian retail sector. Investments into the sector are estimated at USD 400 – 500 Million (INR 2,000 – 2,500 Crores) in the next 2 – 3 years, and over USD 4,000 Million (INR 20,000 Crores) by end of 2010.

**Young & Rapidly Evolving Consumers**

Favorable demographic and psychographic changes relating to India’s consumer class is driving the retail revolution in the country. This continuously evolving consumer segment with a median age of 24 is the youngest in the world compared to other developed economies like the USA where the ‘baby boomer’ generation is now nearing retirement. With 65% of the population below the age of 35 years, this young consumer base has grown up free from the ‘shortages’ and ‘self denial’ experienced by earlier generations. Further, within a decade, the number of people in the age group 20-49 would increase by 30% - from 395 million in 2000 to 510 million in 2010. Fuelling the ‘consuming’ mind set are the increasing income levels of the urban consumer base. The increased prosperity of consumers is being reflected in the improved quality of life across 60+ Indian cities. Some indicators are

- Home ownership is on the rise with 1.5 million new homes being added annually
- India is the world’s fastest growing telecom market; 2 Million new subscribers are being added every month for mobile telephones
- Credit cardholder base is expected to triple by 2008 from current 22 million users
- India is the seventh largest market for automobiles, touching 1 million automobiles, with a growth of 32% in car sales last annum; increasing number of families with more than one car
Consumer durables sector growing at 10-15% every annum

Further, Indians consumers are willing to spend on lifestyle-oriented products & services and credit aversion is now a thing of the past. Further, they are spending on a wider range of products and services. Moreover, with almost 6 million Indian national traveling overseas every year for tourism, the exposure to international shopping formats has vastly increased. This has lead to Indians demanding and expecting comparable formats and service levels in their home country as well.

India on the Radar of Global Retailers

Over the last few years, many international retailers have entered the Indian market on the strength of rising affluent levels of the young Indian population along with the heightened awareness of global brands and international shopping experiences and formats. Figure 6 Some of the well-known names that have set-up their operation in the country are

<table>
<thead>
<tr>
<th>Category</th>
<th>Foreign Brands/Retailers present in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverages</td>
<td>McDonald’s, Domino’s Pizza, Subway, Pizza Hut, Ruby Tuesday, TGIF, KFC, Debonair’s Pizza, Movenpick Foods, Baskin Robbins, Mark Pi, Nescafe, Cookieman</td>
</tr>
<tr>
<td>Apparel</td>
<td>Tommy Hilfiger, Mango, Marks &amp; Spencer, Ermenegildo Zegna, Lacoste, Lee Cooper, Levi’s, Pepe, Benetton, Wrangler, Morgan</td>
</tr>
<tr>
<td>Durables</td>
<td>Sony, Philips, LG, Samsung, Electrolux, Nokia, Haier, Motorola</td>
</tr>
<tr>
<td>Grocery</td>
<td>Metro cash-and-carry, Shoprite Holdings, SPAR, Dairy Farm International</td>
</tr>
<tr>
<td>Sporting Goods</td>
<td>Nike, Adidas, Reebok, Royal Sporting House, Bata, Florsheim</td>
</tr>
<tr>
<td>Luxury</td>
<td>LVMH, Bvlgari, Cartier, Omega, Hugo Boss,</td>
</tr>
</tbody>
</table>
Further, Development of India as a sourcing hub is also making India an attractive retail destination for global retailers. Retailers like Wal-Mart, GAP, Tesco, JC Penney, H&M, Karstadt-Quelle etc have stepped up their sourcing requirements from India and are moving from third-party buying offices to establishing their own wholly owned / managed sourcing & buying offices. Buying volumes for many of these players are already in the range of USD 200 – 400 Million (INR 1,000 – 2,000 Crores) per year, with reported plans to increase to USD 2,000 – 3,000 Million (INR 10,000 – 15,000 Crores) within the next 3 – 4 years.

### Suppliers / Brands Partnering with Retailers

Manufacturers in industries such as FMCG, consumer durables, paints etc are waking up to the growing clout of the retailers as a shift in bargaining power from the former to the latter becomes imminent. Already, a number of manufacturers in India, in line with trends in developed markets, have set up dedicated units to service the organized retail channel. Also, instead of viewing retailers with suspicion, or as a ‘necessary evil’ as was the case earlier, manufacturers are beginning to acknowledge them as channel members to be partnered with for providing solutions to the end-consumer more efficiently and effectively.

### Mall Development in India

On the strength of evolving consumers and consequent demand for real estate space from retailers, property developers are creating retail real estate infrastructure at an aggressive pace. In the next two years, 93 malls are planned across the top 14 cities. Of these, 39 will be launched in 2005 and the remaining 54 in 2006. This figure, however, does not include smaller format developments (less than 100,000 square feet), which many Tier-II towns and cities will be witnessing in the next two years. The fast-paced growth of mall development has been further fuelled by proactive government initiatives like the Delhi Development Authority (DDA) beginning to release real estate space for retail development in prime retail areas such as Vasant Kunj and Saket in New Delhi. By 2010, 300 malls are estimated to be operational in the country. Also, mall developments are anticipated to spread across 60 cities in the country by the end of the decade.
EMERGING TRENDS IN RETAIL SECTOR IN INDIA

In this section, some of the significant trends that are likely to emerge and gain prominence in the future have been highlighted below

‘Tier-II’ Phenomenon
Small towns with a population of 0.5 – 1 million are witnessing a defined increase in disposable income coupled with high aspirational levels leading to enhanced spending on consumer goods along with lesser aversion to credit. With consumption in metros like Mumbai, New Delhi, Bangalore, Hyderabad, Kolkata and Chennai already being exploited, manufacturers and retailers of products such as personal computers, mobile phones, automobiles, consumer durables, financial services etc are increasingly targeting consumers in these Tier-II cities and towns. Retailers are introducing contemporary retail formats such as hypermarkets and supermarkets in these new pockets of growth.

Prominent Tier-II cities and towns, which are witnessing a pick-up in activity, include Surat, Lucknow, Dehra Dun, Vijaywada, Bhopal, Indore, Vadodara, Coimbatore, Nasik, Bhubaneswar, Varanasi, and Ludhiana etc. The ‘retail boom’, 85% of which has so far been concentrated in the metros is beginning to percolate to smaller cities and towns. The contribution of these tier-II cities to total organized retailing sales is expected to grow to 20 – 25%.

Mall development activity in these small towns is also picking up at a rapid pace, thereby, creating quality space for retailers to fulfill their aggressive expansion plans. Keeping in view the relatively smaller size of the market, the average size of a retail mall in Tier-II cities ranges between 100,000 – 120,000 square feet in comparison with the larger metros where a number of malls measure over 500,000 square feet.

Changing Social Trends
Social trends of a country have impact on the scheme of growth of food retailing in a country. India is country that is vast geographically and diverse culturally. This has taken its toll on food retailing with retailers having to adapt to the local cultures and palates of the area in which they have established or plan to establish. This is a major reason for many or most retailing chains restricting their operations to a certain part of the country. But the trends now are slowly moving towards cultural integration where people of all states and diametrically opposite cultures tend to try out foods and materials of other states and communities. This movement towards social integration would make it very feasible in the near future for retailing chains and erstwhile local chains to spread across the country. Increased income levels and more women willing to make use of their education by joining work has increasingly affected the shopping pattern that is moving towards fulfilling the need of convenience shopping in the form of Supermarkets (now graduating to Hyper format) home deliveries. Indian consumer is quality and price conscious and this awareness would drive the retailers to rework their supply chain relationships. A recent analysis shows that countries go through a distinct food consumption evolutionary pattern. In the first stage the focus is on obtaining basic dietary inputs, the second stage focuses on improving and building basic foods, before moving to the third stage of adding premium food to the diet. Most of urban India has already moved to the third stage and it is a great avenue for food retailers, if they could slowly introduce the rest of India to it. The future would witness creation of specific models/formats one for the upwardly mobile urbanite and the other for the rural markets.

Entry of International Players
With global players knocking at the door, waiting for the government to open up the floodgates, all the big Indian organized retail companies are feeling the heat. The fight is now not between Big organized retail stores (3%) and Unorganized Kirana Shops (97%), but its between global giants like Wal-Mart, Tesco and Shopper’s Stop, Pantaloons.
Entry of these global players will impact not only Indian businesses but also the society in a big way. As much as it will change the way India Retailers operate, it will also change the way Indian consumers live and do their shopping. They will no longer be just dependent on their local Kirana shop for their everyday needs. They could just shop once a week or once a month at comparatively cheaper rates and remain hassle free. Indian retailer will also need to quickly come to terms with the market realities. On one hand they will fighting size factor and on the other hand great efficiencies.

**Emergence of new Retail Formats**

Currently the retail sector in India is populated with the traditional mom-and-pop stores and some 1000 odd supermarkets under organized retail chains. A daring few ventured into the Hypermarket segment like big bazaar with successful results and this format is being fast replicated by other players. This experience indicates that the Indian consumer has matured to the next level of shopping experience. Given the Indian conditions and the vast diversity a single format may not be possible for the national presence, but region specific formats may evolve. An interesting observation is that of lack of presence of organized retail chains in the rural/semi-urban centers as over 60% of Indian population is still in these parts. An ideal “no frills” model to start would be ideal for the rural markets; this would help to take them to the next level of supermarket experience.

**Specialty Malls**

Keeping in mind the astonishing pace with which new supply is expected to enter the market, many mall developers, in a bid to offer a distinctive value proposition, are planning to develop ‘specialty malls’. These niche developments shall emerge as one-stop destinations in their chosen product categories. The Delhi-based Aerens Group has developed Gold Souk, an exclusive jewellery mall that is already operational in Gurgaon and has ambitious plans to replicate the concept across the country. Further, a number of analogous developments like a ‘Wedding Mall’ by Omaxe Group, ‘Automobile Mall’ etc are also in the offing. In line with international trends, ‘Home Malls’ offering the entire range of building and interior décor solutions are also coming up in various parts of the country including Pune (‘Ishanya’ promoted by Deepak Fertilizers and Petrochemicals Corporation Ltd), Gurgaon & Kolkata.

Concepts like a ‘Toys Mall’ exclusively for kids and ‘Outlet Centers’ offering branded apparel at throwaway prices are also popular in developed economies and are likely to crop up in India. The positioning is usually ‘discounted’ merchandise along with food, leisure and entertainment options. Apart from attracting ‘bargain hunters’, these centers but also enable retailers to transfer unsold merchandise from flagship stores in malls and high street locations. In USA, such centers measure over 1 million square feet with a catchment population of more than 500,000 people. In Europe, outlet centers are much smaller ranging between 200,000 – 400,000 square feet. Similar
centers are being developed in the Middle East as well and India could see similar developments soon.

Typically, outlet centers are developed on major highways, in close proximity to major towns. Enhanced government expenditure on development of highways in India coupled with the increased penetration of private 4-wheeler ownership shall fuel the emergence and growth of this phenomenon. It is estimated that more than INR 8,000 crores of ‘slow-moving’ brands and products are being generated every year in India, giving an immediate potential of at least 40 – 50 ‘outlet centers’ across the country. Each of these malls can generate a business of INR 100 – 150 crores per year.

Home improvement is a relatively newer segment with a huge need-gap due to the lack of organized retailers in this category. Specifically, potential exists for specialty retailing in the home improvement segment with formats such as consumer durables retailing (e.g. Best Buy, Circuit City) and furniture retailing (e.g. Ikea). Retailers in these categories would require extremely large spaces not necessarily located in prime locations, since consumers would be willing to travel relatively longer distances to purchase these ‘high-involvement’ products, saving on real estate costs in the process. Going forward, specialty malls catering to this format will have to develop.

Of late, India’s largely rural population has also caught the eye of retailers looking for new areas of growth. Earlier this year, ITC launched the country’s first ‘Rural Mall’ in Madhya Pradesh signaling the arrival of organized retailing into rural India. Other large Indian corporates like Godrej, DCM and BPCL also have similar plans to tap the opportunities in rural India. Christened ‘Chaupal Sagar’, ITC’s rural mall offers a diverse product range including soaps, detergents, toothpastes, televisions, DVDs, generators, sewing machines, grinders, tractors, scooters, motorcycles etc attempting to provide farmers a one-stop destination for all needs. Consumer response has been encouraging with Chaupal Sagar already doing business worth INR 150,000 – 200,000 per day and averaging daily footfalls of 700-800. Many more such concepts are likely to be tested in the future as marketers and retailers begin to acknowledge that the rural consumer is more than a ‘poor cousin’ of her urban counterpart. These concepts are likely to go a long way in bringing a huge untapped population within the purview of organized retailing, thereby, increasing the size of the total market.

Price Correction
Fallout of the surge in mall development activity shall be that developers will be forced to offer retailers prime real estate spaces at costs lower than those prevailing today. In a scenario where the space required by retailers to fulfill their expansion plans is likely to be lesser than what developers have to offer, the latter will have to accept a cut in their rental accruals in order to woo retailers to move in to their mall. Hard bargaining and re-negotiating are expected to become the order of the day as the market undergoes a process of correction, especially in markets where supply outstrips demand.

A correction in rentals due to competition could result in a more structured retail real estate market that would allow retailers a higher margin on their real estate investments, thereby enabling them to expand faster. Further, the relatively over-served cities could witness higher activity, as real estate space becomes more affordable, thereby, reducing the break-even period for retailers. Moreover, under-served markets could provide enough margins to retailers to compensate for loss of margins in some of the over-served markets.
Traditional Retailers in Malls
The abundant supply of retail space would provide retailers with the leeway to experiment with newer formats and product categories. In fact, even traditional retailers like Benzer, Study by Janak, Mehrason’s Jewellers etc would be pushed to modern retailing formats like shopping malls occupying 8,000 – 12,000 square feet of retail space. Mall developers shall have sufficient incentive to operate on a revenue-sharing pricing model as many of these traditional retailers can generate higher sales per square foot as compared to the larger-format department stores, which shall translate into higher revenue realizations for developers.

Likely Transformation of the Supply Chain:
To counter the unbeatable advantages of convenience of a hop, skip and a jump access and home delivery, organized retailers seem to have just one option - offer attractive prices to the consumer. A successful retailer's winning edge will therefore come from sourcing - how best it can leverage its scale to drive merchandise costs down, increase stock turns and get better credit terms from its vendors. There are obvious and hidden areas where costs can be pruned and the benefits of this lower cost of retailing can be passed on to customers as lower prices, which in turn should fuel demand. One way of trimming costs is if the pressure points in the long, often unnecessary, supply chain for produce and staples can be identified and suitably dealt with. The supply chain in India is full of inefficiencies - a result of inadequate infrastructure, too many middlemen, complicated laws and an indifferent attitude.

Supplier Retailer Relationships
Traditionally the supplier-retailer relation in India comprised several layers such as the national distributor, the regional wholesaler and the end retailer. However this scenario is fast changing with the organized retail increasing its presence in the country where the relationship is directly with the manufacturer. However this new model has been affecting the relationships that the manufacturer enjoys with the traditional system which is still the most dominant in the entire retail sector. The issue of differential pricing is being taken up at several forums and the growing dissatisfaction among the traditional retailers is being addressed by the manufacturers. However we see that in the long term, the role of a national distributor would slowly fade away or get restricted to the rural/upcountry regions. The supplier-retailer relationship would come under severe pressure as each party would try to squeeze maximum margins out of the other.

Innovations in Transportation Logistics
The logistics service providers have been innovating several interesting formats and models for the retail sector. As of now, organized retail chains in India do not, by far, outsource logistical requirements, they develop their own network. This was basically due to the fact that the supply-chain was still in its infancy stage, which has begun to mature and the systems are being well defined. As retail chains begin to focus more and more on the retail end, the logistics support would begin to get outsourced. The logistics service providers have begun to come out with innovative customized solutions for the retail chains such as GATI’s model for distribution of Alphonso mangoes throughout the country with the Information Technology support. We see that the logistics service providers would continue to innovate and develop effective distribution systems for the retail sector.

Use of Technology
The other important aspect of retailing relates to technology. It is widely felt that the key differentiator between the successful and not so successful retailers is primarily in the area of technology. Simultaneously, it will be technology that will help the organized retailer score over the unorganized players, giving both cost and service advantages.
Retailing is a `technology-intensive' industry. It is quoted that everyday at least 500 gigabytes of data are transmitted via satellite from the 1,200 point-of-sales counters of JC Penney to its corporate headquarters. Successful retailers today work closely with their vendors to predict consumer demand, shorten lead times, reduce inventory holding and thereby, save cost. Wal-Mart pioneered the concept of building a competitive advantage through distribution and information systems in the retailing industry. They introduced two innovative logistics techniques - cross-docking and electronic data interchange. Today, online systems link point-of-sales terminals to the main office where detailed analyses on sales by item, classification, stores or vendor are carried out online. Besides vendors, the focus of the retailing sector is to develop the link with the consumer. `Data Warehousing' is an established concept in the advanced nations. With the help of `database retailing', information on existing and potential customers is tracked. Besides knowing what was purchased and by whom, information on softer issues such as demographics and psychographics is captured. Retailing, as discussed before, is at a nascent stage in India. Most organized players have managed to put the front ends in place, but these are relatively easy to copy. The relatively complicated information systems and underlying technologies are in the process of being established. Most grocery retailers such as Food World have started tracking consumer purchases through CRM. The lifestyle retailers through their `affinity clubs' and `reward clubs' are establishing their processes. The traditional retailers will always continue to exist but organized retailers are working towards revamping their business to obtain strategic advantages at various levels - market, cost, knowledge and customer. With differentiating strategies - value for money, shopping experience, variety, quality, discounts and advanced systems and technology in the back-end, change in the equilibrium with manufacturers and a thorough understanding of the consumer behaviour, the ground is all set for the organized retailers.

Community Involvement

The retail center of the future will be designed to resemble a community, not just a place to shop. That means environments that forge links to their communities by opening wellness centers; libraries, city halls and children's play areas. These communities would encompass shoppers, residents of nearby areas and retailers. A sense of belonging and pride will be attached to the center through effective co-branding exercises.

Shoppers are looking for opportunities to hang around and meet people. Shopping center developers are responding to consumer interest in places that differentiate themselves, feel `authentic’ and provide not just a shopping experience but also one that reflects their lifestyles. Developers recognize that their centers need to be entertaining, and that shoppers want their malls and town centers to blend with and reflect their own communities.

Footfalls in most malls across the country have been observed to be significantly higher on weekends, sometimes even two times as high as compared to weekdays. In order to ensure regular walk-ins on weekdays, mall developers should focus on involving the local community. Activities like karate classes and painting competitions for children on a Sunday morning ensuring that their salary-earning parents visit the mall on a weekend are commonplace in developed markets. In fact, in some countries, the Sunday mass is organized in a mall instead of a church. Though such activities do not directly generate revenues for the mall developer, they go a long way in making local consumers recognize the mall as a place where they can do a lot more than merely shop. Further, components such as beauty parlours, card rooms etc also guarantee that housewives visit the mall on weekdays.

The community building effort can be operationalized through partnerships. This is a win-win situation where companies like Nestle and Ford that have nothing to do with amusement facilities have created kids zone/ amusement facilities to come closer to their target consumers and develop strong linkages with them. The philosophy of a developer should be to create a
center where people would want to stay well beyond their shopping time to enact the rituals of urban life. For example, Southdale Mall, USA contains a school, an auditorium, an ice-skating rink and even a zoo.

Likewise, Mall of America provides classrooms at nominal rates for 500 elementary public school students and children of mall employees, paid for by five surrounding school districts. Before shops open, the mall allows senior citizens to do ‘mall-walking’ between 7:00 and 10:00 a.m. Mall of America also sponsors fashion shows, craft fairs and other activities to attract more shoppers. Apart from the regular components such as cinemas, restaurants, fast-food joints, the mall has an aquarium, a mini-golf course, an amusement park, a wedding chapel, an assembly hall, a school, a bank, and a medical clinic.

In India, similar efforts should be made to make malls the focal point for all community activities. Currently, there are very few malls such as Inorbit Mall, Mumbai and Ansal Plaza, New Delhi that focus on becoming a platform for community activities. Within one year of its operation, Inorbit Mall has had as many as five community-focused events including special events on Diwali, Christmas and during summer vacations of school children.

Online Retailing

The single most important evolution that took place along with the retailing revolution was the rise and fall of the dotcom companies. A sudden concept of `non-store' shopping emerged, which threatened to take away the potential of the store. More importantly, the very nature of the customer segment being addressed was almost the same. The computer-savvy individual was also a subsegment of the `store' frequenting traffic. Internationally, the concept of Net shopping is yet to be proven. And the poor financial performance of most of the companies offering virtual shopping has resulted in store-based retailing regaining the upper hand. Other forms of nonstore shopping including various formats such as catalogue/mail order shopping, direct selling, and so on are growing rapidly. However, the size of the direct market industry is too limited to deter the retailers. For all the convenience that it offers, electronic retailing does not suit products where `look and see' attributes are of importance, as in apparel, or where the value is very high, such as jewellery, or where the performance has to be tested, as of consumer durables. The most critical issue in electronic retailing, especially in a country such as ours, relates to payments and the various security issues involved.

However, using the internet to be able to source products and also check for availability of stock among stores of retail chains has been proven to be effective and cuts down on wastage by a vast amount. It makes logistical support very easy and efficient. The trend in India is such that usage of the electronic medium for business purposes and integrating it into the systems is increasing. This would slowly spread into the retailing sector as well. It has already started in the case of some large retail houses where the affects are here to see. This again would result in the supply chain getting leaner and vertically integrated. Though the initial costs to implement these systems are high, in the long run it results in cost reduction where this privilege can be passed on to the final consumer.
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