CHAPTER-1

INTRODUCTION TO RETAIL

LEARNING OBJECTIVES:

1) Understanding the retail sector in India

2) Analyzing the trends prevalent in the retail sector in India

3) Knowing the types of retail formats currently popular in India

RETAIL SECTOR IN INDIA

Retailing is an age old activity that takes place whenever we buy something from anywhere for ourselves. Hence any activity that brings a product or service to a customer falls under the ambit of retailing. In India it is the second largest sector after agriculture in terms of employment generation and contributes 14-15% to the GDP of India. Indian retail market has seen an unprecedented growth, largely at the corporate level in the past 10 years. The Indian retail market is estimated at US $ 450 billion at is steadily growing at a CAGR of 10%. Recently the Government of India has made more relaxation in the FDI norms, allowing 100% ownership in single brand retail outlet (30% of the goods sold by such retailers have to be sourced from India). There are 15 million retailers in India. World’s highest figure. However the Indian retailing sector is highly fragmented and consists predominantly of small, independent and owner- managed shops. At present only 9 %( approx. figure) of the total sector is organized but this %tage is increasing at a very rapid speed and the trend of conversion of this highly unorganized sector into an organized one is here to stay. The reason for this unprecedented growth of retail industry can be attributed to the growing Indian economy which has been growing at a steady of 8% since the year 2003-2004 until the beginning of the year 2008. Although the retailing sector was greatly affected by the world economic crisis of the 2008-2009 but the silver lining is, that the growth trends are here again and if RBI’s prediction is to be believed, we are likely to touch GDP figure of 8.5% by the end of current financial year. Higher GDP has had a positive effect on consumption levels. Coming up of more industries has created more jobs. The salary levels of existing workers have gone up. People have more money in their hands, which they are spending on buying household goods as well as
lifestyle accessories. An increased buying power implies two things: more people will buy goods and some people will buy more luxury products. Over the last few years, Indian retail has witnessed a major transformation. Business models became more scalable and profitable. The traditional markets are losing out. New formats like hypermarkets, supermarkets and shopping malls are coming up in every part of the country. These modern stores are becoming the destination for shoppers, who are looking for shopping to be an ultimate experience instead of a necessary chore (as it was considered only 5 years ago). Shoppers are also looking for ambiance and convenience and faster services.

However, the major challenge faced by the retailer today is how to run a sustainable operation. For this a retailer must understand how and why people buy? Why is it, that they prefer one vegetable vendor or a grocer over another? Has it got something to do with the person, the gender or the place? Or it is more due to product quality and service? If everybody gives the same product (which happens at the grocery stores), then how come customers behave differently towards each retailer? These and many other intriguing questions form part of what is called shopping or buying Behaviour. In retail sector, understanding the customer is becoming more & more important as market is seeing more brands, larger stores, affluence. All this will be in vain if the customer does not spend.

**TRENDS PREVALENT IN RETAIL SECTOR IN INDIA**

Organized sector retailing has brought in the trends of newer formats of retail. Not only the Indian corporate houses but also the international brands in tie-ups with Indian corporate houses are changing the form, kind and arena of retailing in India. These trends in retail sector are not only observed in the cities. Companies have realized a huge untapped market in the rural hinterlands. The aspirations of a farmer are not much different from its urban counter part; both may want clean hair and use Clinic All clear shampoo however the customer in city may prefer to buy a large bottle while the farmer may buy a sachet. Buying a LCD TV may be a common aspiration in both cities and villages. In the city, it may happen in the month of April when the person gets his promotion or salary hike while the farmer may buy it during the harvesting season when he is rich on cash. The urbanite may buy it with a credit card and the farmer may ask for a credit for buying. (Rural buyer behavior will be covered in a separate chapter)

All in all retail market presents not only immense scope of growth and development but also some formidable challenges and one of the most important challenge faced by a retailer today is that of identifying customers/shoppers (in retail sector a customer is often termed as a shopper), identifying there needs and understanding
the individual differences that exist between various types of shoppers, establish its(retailers) image in the mind of these shoppers and satisfy them by making there shopping experience a memorable one for them. It is rightly said, “customers don’t buy products they buy experiences.”(The aspects of retail image, types of shoppers and trading area analysis are covered in subsequent chapters)

Marketing is not about just selling a product. It is about understanding and satisfying customers’ needs. Hence, a woman buying anti-ageing cream is actually buying the solution to fight off the low self esteem and confidence level that age has brought on her face. Without identifying and understanding customers’ needs, no business can succeed. This is also true in retailing. A retail strategy involves identifying and understanding customers’ needs, aspirations, decision-making process, etc. It also requires studying the environmental factors that influence purchase decisions. The retailer should create a strategy based on consumers’ needs. Understanding customer needs in today’s dynamic environment is not an easy task. Market scenario has rapidly changed and is still changing at a very fast pace and this pace has been put on a faster track in the past decade or so. Sectors that were earlier practically non-existent have flourished and existing sectors have been rejuvenated by the entry of organized, professional players both from India and abroad. The two major reasons for this unprecedented growth of Indian retail sector are:

a) Increase in disposable income of an average Indian shopper. Coming in of MNCs in various industrial sectors has created immense job opportunities for young, educated, skilled and English speaking workforce of India. This has lead to change in lifestyle, Values and attitudes of Indian society as a whole. Earlier people, who had money, use to spend it on foreign holidays and shopped from international markets. But today all the international brands and retailers such as ZARA, MANGO, JINI N’ JHONY etc. have opened there stores in Indian cities.

b) The modern retail industry in Brazil, Russia, Indian, China and South Africa (BRICS) is seen having maximum potential on growth worldwide. According to Global Retail index, A.T. Kearney report 2012, India is among the top five countries from the point of view of FDI and hence is on the radar screen. Although India has lost its position by one rank in the last year, still the situations seem very promising for the retail sector in near future.
RETAIL FORMATS CURRENTLY POPULAR IN INDIA

Every segment of the retail sector is witnessing growth and change in business behavior of both existing and new players. Some of the major sectors that have been influenced by the dynamism of retail trends are:

a) APPAREL RETAILING- This sector is predominantly occupied by traditional and multi-branded outlets. Of late, there has been a shift towards organized chains and exclusive branded outlets. Relaxation of investment norms by the government, changing consumer demographics and investment in this sector by national, international, organized and unorganized retailer brands has changed the face of this sector. These trends in turn are favored mainly by the large young population of India. Around 65% of the population is below 35 years and 54% of
the population is below 25 years of age and in coming years Indian population is going to be predominantly young and working. The GDP is also showing an upward trend. Purchasing behavior data shows an increase of 16% in the disposable income of upper and middle class. An average Indian shopper is becoming more and more brand conscious. People perceive brands as a status symbol. As patronizing a brand is closely related to income and purchasing power.

b) FOOD AND GROCERY RETAILING- Millions of Indians earn their livelihood from this sector. This sector covers around 62% of the Indian retail industry and the two major trends that sector is witnessing are: organization of this otherwise highly unorganized sector and change in customer preferences with a rise in disposable income. Consumer requirements are changing because globalization has raised the standard of expectations of Indian customers. Now they are more aware of global brands and want the same quality and service in India. Products like packaged food and frozen food have started appearing on the retail shelves. Consumers, who earlier use to shop separately for dry grocery and wet grocery, now want to buy all their grocery under the same roof as today’s customer is a time starved customer.
c) ENTERTAINMENT RETAILING - a new segment that has not only emerged but has also seen massive growth is the segment of entertainment retailing. It covers movies, games, gifts and all other modes of entertainment. The largest player in this sector is the Indian film industry. It is the largest in the world in terms of number of films produced. The mushrooming multiplexes have increased the consumer expenditure on movies, particularly in urban India. Since the number of working people has increased, this in turn has lead to an increase in the amount of money spent at these entertainment destinations. With the average price of a movie ticket around Rs 150, each shopper easily spends around Rs 500 on every trip to a multiplex.

Fig 1.4, major entertainment retailers that changed the way of movie viewing in India (source: go.nxg.com for PVR logo and funcinema.com for fun cinema logo)
d) FITNESS AND PERSONAL CARE- Indians are experiencing yet another trend that has gained acceptance and importance in past 8-10 years and that is to look and feel good. Sedentary lifestyle, fast food habits, availability of plethora of beauty products and as mentioned earlier, a high disposable income to spend has made today’s times, a great time for fitness and personal care brands and retailers. Indians are becoming more conscious about their fitness levels and their looks. As a result, gymnasiums, beauty saloons and slimming centers are growing at a fast pace. An aging and affluent population is driving the boom in the fitness market. Women are generally the major buyers in this segment. Although now men are also becoming beauty conscious. The men fairness creams/face wash/gels have captured a large market share among the young Indian males, who earlier did not have any exclusive products for them. However still the market is predominantly focused upon women beauty care because now more and more women are entering the workforce and that too at higher positions. Hence they have disposable income in their hands that is being spent on this market. An increasing busy lifestyle has increased the stress level of all. Many shoppers now willing to spend extra money to keep themselves in top shape. While gyms and parlors take care of the physical side, meditation centers help them keep their cool under pressure.

Fig 1.5, the new sector of fitness and personal care changed the lifestyle of urban customers in India (source: primeindiahealth.com for vlcc logo and bestmediainfo.com)

It is not only the various new sectors that have changed the face of the retail in India but the new formats of retail have also come up on the scene of Indian retail. Infact one can easily see that the Indian retail sector is at a crossroads. While foreign players are looking
for new markets, manufacturers are searching, redefining or evolving new retail formats. The existing retail outlets are also taking on new shapes and forms. The new and upcoming retail store formats are mainly classified on the basis of the merchandize offered by them. Some of the major formats are briefly discussed below:

**MALLS**- The largest form of organized retailing today. Malls are located mainly in metro cities, in proximity to urban outskirts. An average area covered ranges from 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Indian shoppers have been exposed to a mall culture now. A place where they get complete infotainment (information + entertainment). These shopping destinations usually attract the shoppers due to the presence of a variety of branded merchandise and other shopping products along with a famous food court and usually a movie complex all within the ambit of a single mall. Earlier people had a misconception that malls only host famous and expensive brands but slowly this myth faded away, thanks to the lucrative promotion schemes and shopping fiestas organized by the mall authorities from time to time. Now even a lower middle class (majority population in India) visits a near by Mall for shopping at least once a week.

**CONVENIENCE STORES** - These are the modern versions of the traditional ‘kirana’ stores. The stores are having a floor area ranging from 2000- 3000 sq. ft and offer a limited variety of merchandise at a small scale but convenient locations. These stores enable shoppers to shop quickly and also ensure speedy checkout. There biggest highlight is that they are usually located alongside a busy road, parking area or at petrol filling stations and at times also near residential areas. They have long shopping hours and are a boon for the dual career couple families mainly in urban cities where such type of families are on a rise. Due to the convenience offered, they usually charge a high price which a time starved customer is ready to pay.

**SPECIALITY STORES** - These stores have a clearly well defined target market and therefore provide top-level consumer service and sales expertise in the concerned category. The floor space of the store is 8000 sq.ft. Specialty stores concentrate on a narrow product line, with a deep assortment in that product line, such as apparel stores, Jewellery, sporting goods, furniture etc. A specialty store offering apparels would be termed as a single-line store whereas a specialty store offering women’s clothing would
be a limited-line store and an exclusive made to order men’s apparel store would be a super-specialty store. These stores generally have a discounted competitive pricing strategy. The store ambiance is impressive and excellent customer service and personal care is offered by these stores.

**MULTIBRAND OUTLETS (MBO)**- due to a decline in the traditional apparel shops, a new sort of specialty retailer, known as category killers or MBOs have come up in many parts of the country, especially metros. These stores are basically a large category specialists which use self service practice and kill the category merchandise for other small retailers of the same line by offering complete assortment in the concerned category. They offer many brands and varieties across a particular category. Shoppers get a wide variety, form and range of a particular merchandise to choose from, under a single roof.

**DISCOUNT STORES**- These stores offer an inconsistent merchandise assortment and latest fashion goods at reduced prices. They control operating costs such as expenses incurred in store layout, cost of land, employee expenses etc. and therefore are able to keep a very low pricing policy. These stores could be limited line discount stores, selling limited lines of merchandise at low prices but the brands offered are well reputed. Some discounts stores offer full line or broad merchandise assortment in high volume but at low cost and hence are called full line discount stores. These stores attract price sensitive shoppers and buyers are attracted to these stores only because of the 20- 40% discount i.e. usually offered by these types of stores.

**HYPERMARTS**- A hypermarket usually is a very large retail unit offering merchandise at low prices and combines various department stores. In India a hypermarket covers a floor area of about 50,000 sq. ft. These markets are characterized by large store size, low running costs, margins, low prices and a very large range of merchandise in varied quantity and quality, under one roof. 60% of a store’s sales come from groceries. However the store also sells items such as garments, consumer durable, fruits, vegetables, plastic items, electronic items, Jewellery etc. these stores also have their own outlets of bakery, music world, gift items, cell phones, home appliances, cooking wares, furniture, sports and food courts etc. Big Bazaar is an example of hypermarket in India. Size, shopping experience, merchandise range and new promotion schemes offered by hyper marts, attract many shoppers often belonging to middle to lower classes, in their stores.
**DEPARTMENT STORES** - A department store offers several product lines - typically clothing, household goods, Jewellery and home furnishings. Each department within the store has a separate line, managed by specialist buyers or merchandisers and offer mid- to high quality products. The display, promotion, customer service and control of each department within the store are separate. Similarly, each department has its own sales, accounts, packaging and security staff. Most of the items offered on sale relate to FMCG and items of daily use. The characteristic feature of a department store is that there is a balance between home furniture, consumer electronics, apparel and food and all departments should generate contribution towards sales. These stores are usually spanned over an area of 20,000-40,000 sq. ft. the pricing is moderate to above average and level of customer service is high. Shoppers flock these types of stores and they are very popular among urban upper and upper-middle class people.

**SUPER MARKETS** - A super market is a large retail facility offering a wide range of dairy products and other perishable as well as non perishable household day to day items such as eggs, shampoos, soaps, medicines, clothes etc. the products are offered at low-price, low-margin, high- volume and self- service. These marts are usually built either near residential areas or on the outskirts of the city. Customers in super marts use ‘trolleys’ or ‘baskets’ for collecting their desired products and pay for the same at the checkout counters(billing sections) located near the exists. These type of marts are gaining popularity in many parts of India and they are flocked by people of all castes, communities and classes. The only point of attraction that helps draw crowds to such stores is the Every Day Low Price (EDLP) selling policy. The product range is vast, deep and broad and service level is self- service.

Apart from the above mentioned retail formats, other contemporarily formats such as direct response marketing through teleshopping, e- retailing, catalogue order retailing and Vending machines and World Wide Web etc. are also gaining popularity in India. The store format of a retailer is determined by many factors including its looks as well as the variety, the quality and the quantity that a store has on display. Type or format of a retail store not only determines the target market or the type of shopper that will frequent the store but also influences the shopping behavior of a shopper. For example a shopper entering into a departmental store makes purchase decisions without giving much consideration to the price or promotion scheme offered by the retailer. However on the other hand when this same shopper enters a hyper mart or a super mart, than the only factor that influences his/her purchases decision is the discount schemes offered by different marts.
CHAPTER END QUESTIONS

Q1- What do you understand by the concept of retailing?

Q2- Comment upon the trends those are prevalent in the Indian retail sector.

Q3- Briefly describes any three new formats of retailing in India.

Q4- Apart from the retail sectors mentioned in the chapter that are experiencing dynamic trends, do you know of any new sectors that are entering retail scene of India.

Q5- Identify the factors that have brought in this unprecedented growth in retail sector.