

A Review of Contemporary Retail Formats in Emerging India

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Abstract

Trends of globalization coupled with reduced trade barriers are inducing competitive retailers to shift focus away from the hitherto attractive developed markets towards investing in the emerging underserved geographic markets. However, getting it right in the emerging markets requires thoughtful judgments on the existing structure and dynamics of the new markets. In the wake of relaxing regulatory climate, India's position as an attractive retail destination calls for scrutiny and introspection. While retail practitioners are critically exploring alternatives to come up with innovative India-specific retail business models or formats, an account of the modern retail landscape in India comes handy. Hence, the present paper attempts to present an account of the current retail formats in emerging India as a collation of evidences and estimations available from literature and other sources of academic interest that could be used as a point of reference by indigenous retail theoreticians and practitioners.

Keywords : retail; emerging markets, organized retail

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The 21st century retail business model transformation is marked by systemic shifts in its landscape with greater innovation, integration, and responsiveness (KPMG, 2009). In the contracting global economy, modernization of retail primarily resulted from the expansion of foreign-owned global players into uncharted territories or through accelerating trade practices by the local players (Shabat, Moriarty, Rhim, & Salman, 2012). Quite befittingly, the retail experience over the last decade shows that the 50 fastest growing retailers of the world achieved their target by tapping the underserved geographic markets (Kalish, 2008). Indisputably, globalization and reduced trade barriers are fueling the new-age retail practices and trends.

Consequently, a shift of focus from the developed western markets to the developing markets is fueled by encouraging domestic demand figures in the emerging markets. The accumulated foreign currency reserves of the emerging markets are encouraging investments in the form of organic expansion or acquisition of retail businesses by players from the richer nations (Kalish, 2008). With a 42% share of the global retail sales, the developing markets charted a 7% increase over the last decade. This has been further reinforced with a 91.5% increase in the per-capita retail sales in 2010 (Shabat, Moriarty, Rhim, & Salman, 2012). A.T. Kearney's (2011) report on a 225% expansion in retail space and a 11% increase in the population of evolving markets over the last decade are attracting international players to consider the emerging markets with invigorated focus and rigor.

However, irrespective of the attractions, the emerging markets pose certain challenges. Getting it right in the developing markets has left world-class retailers in a perplexed state, where the tradeoffs are pretty costly. The results have been mixed. While some companies stumbled, international retailers like Walmart, Carrefour, Metro, and Tesco managed to stand out by taking globalization through developing market expansion as their priority. Carrefour's presence in 34 countries accounting for 54% of its sales came at the cost of nine exits during 2005-09. Germany's Metro took the early mover advantage in 33 countries, while Tesco and Walmart conquered 14 countries each outside their territory as a part of their much rewarding global expansion strategy. The top five countries to emerge through the test of time were those of China, India, Russia, Vietnam, and Chile, that consistently featured in A. T. Kearney's global retail development index over the 10-year period. Though the compound annual growth rate has been consistently higher than the average index of 9% for all the five countries, but the markets differ in terms of their respective positions in the stages of the retail development process.

In the last ten years, the rise of the BRIC nations (Brazil, Russia, India, and China) marked an explosive global retail development era shaping the ways of the global retail business (Shabat, Moriarty, Rhim, & Salman, 2012). The sheer

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market size of India, China, and Russia attracts international retailers. The power of the growing middle class with purchasing power of an overall wealthy population spearheads their potential as a destination for retail expansion (Jha & Singh, 2013; Malik, 2012; Rao & Manikyam, 2013; Sathyanarayanan, 2012). In case of Vietnam and Chile, the projected growth in their gross domestic product and disposable income figures continue to attract foreign retailers. Still, the attractiveness of these markets does not ensure sustainability. In this context, considering all the lessons from several high-profile retailers making mistakes in getting their assortment, pricing, or service models right, signals the need for understanding the market dynamics specific to each evolving market.

India's consistent rank in GRDI's Top 10 contributed to its prominence as a retail destination. A. T. Kearney's GRDI 2012 (Shabat, Moriarty, Rhim, & Salman, 2012) reported that the country shows no signs of slowing down and last year's improvements in the regulatory environment is showing a strong potential of 15% to 20% retail growth in the next five years. The report showed that even though the organized retail share still dwindles around a very low 7%, the country is gearing up for the big boom with sophistication of the local retail and entry and expansion by the global retailers to take advantage of the 100% FDI limit in single brand retail and the cash and carry or the wholesale segment. At the wake of further relaxations in the FDI climate in India and renewed focus on analyzing the potential of the market as a retail destination (Ahmed & Mayya, 2012; "Mart liberalization scales Trinamul wall", 2011), this paper aims to enumerate the various evidences and estimations over the emerging retail market in India. India, as a true market economy with over a billion people and growing consumerism, stimulates enough optimism for investors in retail (Kalish, 2008). Hence, it justifies the purpose of this paper to enumerate an account of the prevalent state of affairs in terms of the existing retail formats to give an understanding of organized retail landscape in emerging India.

Review of Retail Formats in India : Evidences and Estimations

The evolution of modern retail formats in India from the days of the primitive weekly markets or village fairs gradually changed the face of retailing from an entertainment orientation to a more conscious profession of delivering consistent quality shopping experience. From the post liberalization era of the 1990s, the modern formats started gaining mind share and market share from the traditional mom and pop stores, kiranans, khadi stores, or the government managed public distribution systems (Rao & Manikyam, 2013). Nevertheless, the real diffusion of modern retail in third wave countries started in early 2000s (Joseph, Soundararajan, Gupta, & Sahu, 2008). In India, modern retail gained momentum around January 2006 with the announcement of its progressive relaxation policy of 51% FDI in single brand retail. Conceptualization of the modern formats started mostly in the apparel sector followed by a substantial investment commitment by the indigenous corporate giants from 2005 onwards, with an entry into the food and grocery segment across the top 100 cities in India (India Brand Equity Foundation, 2011). Around 2010, the influx of international brands and stores added a notable dimension to the retail landscape shaping the lifestyle of transforming India. However, the 20 years of organized retail growth have been predominantly urban, owing to the opportunities of the urban consumers in terms of their purchasing power and comparably global lifestyle preferences (Akhter & Equbal, 2012).

✍ **Getting Ready for a Retail Boom :** The current Indian retail market, which is estimated to almost double from a US \$ 330 billion in 2008 to a US \$ 637 billion by 2015 is undoubtedly an attractive emerging market (Tripathi, 2008). Reports by Euro Monitor show that the retail sector in India constituted one of the country's largest sectors with a market size of US \$ 425 billion in 2010, clocking a consistent compound annual growth rate of 6.4% since 1998 (IBEF, 2011). Organized and unorganized store formats coexist in all sectors of the nation of 'dukandars' (shopkeepers), having approximately 12 million retailers and lowest per-capita retail space (McKinsey, 2000). During 2009 - 2012, the organized retail market in India was estimated to grow at a 31% per annum rate, with retail real estate growing at a greater rate from 41 mn sq ft in 2006 to 95 mn sq ft in 2009, and supported by a mall space growth from 28 mn sq ft in 2006 to 52 mn sq ft in 2009 (Knight Frank, 2010). Significant growth in the urban and semi-urban retail markets in India is giving a strong indication to consider retail as the next boom industry for the country (Akhter & Equbal, 2012).

With only 6% of the retail sector under the organized segment during 2010 (Sathyanarayanan, 2012), the country has potential for unprecedented growth and development in the organized retail category that is expected to grow at a CAGR of 23% over the next five years (Mullick, 2013). The forecasts are encouraging, with an attractive annual expansion rate, which is well supported by a 300 million middle-class population growing at a rate of 2% annually

(Singh & Bose, 2011). Over 6 million affluent customers with more than ₹ 215,000 household income in addition to a 75 million well off population earning between ₹ 45,000 and ₹ 215,000 in India is giving tremendous impetus to the overall growth of the retail sector (Marketing White Book, 2006). According to the Indian Economic Survey 2010-11, the GDP growth rate pegged at 8.6% and per capita income growing at 17% are continually heartening investors to consider India as an attractive retail market (BIG Strategic Management Consultants, 2012).

➤ **The Modern Retail Landscape :** The report by PWC on revenues from retail business in India shows textiles accounting for more than one-third share of the total revenue share in 2010 followed by food and grocery and consumer durables (India Brand Equity Foundation, 2011). Retailing in the more unconventional areas like health and beauty still have a long way to go. Categories like apparel, grocery, and footwear are characterized by more format types. The prevalent brick and mortar store formats include malls, speciality stores, departmental stores, discount stores, or the factory outlets, supermarkets, hypermarkets, convenience stores, and the category killers in the form of multi brand stores (Rahman, 2012). The most popular formats that have been adopted earliest in the Indian markets are the malls in the metro cities that range between 60,000 square feet and 7,00,000 square feet (Mullick, 2013). From 2001, the small-sized single category specialty store with an average size of 800 square feet dominated the organized retail market followed by the departmental stores with an average 30,000 square feet space and supermarkets or convenience stores of 1,000 square feet average space. The hypermarkets with an average store space of 40,000 square feet emerged much later around 2006, when 75 large-sized hypermarkets were accounted from the bigger Indian cities (Joseph et al., 2008).

The Indian market is flooded with formats labeled as multi brand stores and exclusive or single brand stores. The specialty formats targeting specific segments like books, kids, music apart from the specialized segments within the apparel market have a strong presence. Relaxations in the Indian FDI regulation, particularly for single brand stores ("Mart liberalization scales Trinamul wall", 2011) attracted the best known brands to set up exclusive stores alongside the more traditional multi brand formats. The single brand stores including the branded specialty stores typically offer products of a single brand and are sized between 1000 and 5000 sq ft in area. Some of the internationally prominent single brand stores include Nike, Adidas, Gucci, Gautier, Zara, Levis that compete with the indigenous brand stores like Biba, Fab India, Gatha, Raymonds, Wills Lifestyle to name a few. The larger single brand stores are mostly in the form of category killers like in the case of Nalli stores that specialize in silk sarees. Multi brand stores traditionally offer multiple brands and include all variants of departmental stores, hypermarkets, sized between 1000 and 20000 sq ft in area (Singh & Bose, 2011). Pantaloon retail is the country's largest retailer with its hypermarket chain Big Bazaar, Supermarket Food Bazaar, and departmental stores. Other key players include Tata Trent's Westside, Raheja's Shoppers Stop, Reliance Retail, RPG Group's Spencer and others (see Table 1 for a list of the modern retail formats in India). The multi brand segment, which is at the wake of opening up for foreign investments, will make the markets all the more competitive.

The Challenges

Despite the huge potential, it is important to be conscious of the challenges in the evolving Indian retail market. Malik (2012), Rahman (2012), Akhter and Equbal (2012) in their paper laid out the problems that the organized retailers in India need to address, which are summarized as follows:

- The reigns of the changing structure of organized retail sector in India are still in the hands of a few retailers, creating the need for attracting large national and international players for substantial investments.
- Technological support, cold storage infrastructure, supply chain, and skilled manpower requirements crucial for new age retail operations and services are still inadequate.
- Problems of retail shrinkage due to administrative inefficiencies, shoplifting, employee thefts, or vendor frauds call for implementation of effective monitoring systems.
- Complex taxation systems and multi point octroi with the introduction of value added tax (VAT) in 2005 are keeping organized retailers perturbed, while policy makers are getting concerned over massive sales tax evasion by smaller unorganized retailers.

Table 1. Modern Retail Formats in India

Format	Store Features	Retail Players
Hypermarket	Large stores with 50,000 to 1,00,000 square feet space; offer large basket product from grocery, fresh & processed food, beauty & household products, clothing & appliances.	Spencer's Hypermarket, Big Bazaar
Cash and Carry	Very large store with over 75,000 square feet space carrying thousands of stock keeping units; B2B focus for bulk buying & selling; legally restricted to sell fresh produce & liquor.	Metro
Department Store	Large layout with 10,000 to 60,000 square feet retail space; wide range of merchandise across cohesive categories; mainly in garments along with fashion accessories, gifts, home furnishing; wider consumer-audience catchment & in-store service are major differentiators.	Shoppers Stop, Pantaloons, Westside, Ebony, Lifestyle, Globus
Supermarket	High growth format (Shenoy, Sequeira, & Devaraj, 2012), large in size with typical layout; offers household products & food.	Nilgiri's, Spencers, Food Bazaar, Apna Bazaar, Sabka Bazaar
Shop in Shop	Presence within large formats, department or supermarkets; efficiently managed through supply chain & fast stock replenishment with scaled down store space.	Infinity (Jewellery); Revlon, Chambor (Cosmetics); Nina Ricci (Perfumes); Cross (Pens)
Specialty Store	Single category store with focus on individual & group clusters of the same class with high product loyalty; includes focused apparel chains and brand shops.	The Mobile Store (Mobile Phones & Accessories); Archies (Gift Store); Fab India (Apparel)
Category Killers	Large Specialty Stores with an average size of 18,000 square feet; focus on wide range within particular segment at affordable prices.	Nallis (Sarees); The Loft (Footwear); Haldiram Food City (Food)
Discount Store	Offers wide range of branded products at discounted prices; average size is 1000 square feet; includes factory outlets.	Subiksha (discontinued) (Sathyanarayanan, 2012), Margin Free (Food & Grocery); Koutons, Brand Factory (Apparel); Nike/Levis factory outlets
Convenience Store	Small (average 800 square feet) residential area retail stores; open long hours 7 days a week; carrying limited range of staple & grocery	In and Out, Safal

Source: Compiled from Technopak (Joseph et al., 2008) and Google resources

- ↳ Understanding consumer behavior and customer loyalty specific to the Indian market is difficult.
- ↳ Rising retail real estate prices coupled with high stamp duties on property transfers increase maintenance costs and lower profit margins.
- ↳ Competition from the unorganized retailers along with rising competition between players in the organized retail sector is intensifying the challenge.

Managerial Implications and Conclusion

The review of the current market scenario, especially with regard to a critical understanding of the existing forms of retail business models across categories helps with pertinent market specific information. Such understanding would aid future research around formats or business models specific to the Indian organized retail markets with a readily usable comprehensive account of modern formats prevalent in the country. While it is accepted that the modernization of the retail trade in India comfortably rides on the favorable trends of consumerism, mythical judgments over the potential of large retailers penetrating the lower-to-middle class segments (D'Andrea, Stengel, & Goebel-Krstelj, 2004) are also brought into focus. Further, the problems of overtly ambitious business models disregarding the challenges of strong competition from the existing traditional small-scale retailers coupled with the government's regulatory challenges signals the importance of a timely retrospection on the effectiveness and extent of propagation of specific retail business formats. According to the estimates by Technopak India Pvt. Ltd., investments amounting to

US\$ 35 billion in the next five years have been made, of which 70% have been promised by some of the well-known Indian players like Reliance Industries, Future Group, Aditya Birla Group, Bharti - Walmart, and three others, however, the question remains around the planning of the right indigenous business model that will suit the purpose and process of the Indian developing market as a whole. Even for international players like Walmart, Metro, Tesco, Auchan, Germany's Metro AG, or France's Carrefour, who are either planning their entry or further expansion (Joseph et al., 2008 ; Singh & Bose, 2011), the pertinence of innovative India-specific retail business models or formats is much awaited as we eventually approach the narrowing organized- unorganized retail divide in new-age India.

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