

MODERN RETAILING CHALLENGES IN INDIA

(THEME – MARKETING)

TITLE - RETAIL IS ALL ABOUT DETAIL

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DECLARATION

There are no references from any book in particular or internet, the entire matter is written based on the experience of the author – and is original.

Abstract

Introduction

Retailing involves all activities incidental to selling to ultimate consumer for their personal, family and household use. Retailer is a must and cannot be eliminated. The Indian retailing industry is becoming intensely competitive, as more and more payers are vying for the same set of customers. India is the country having the most unorganized retail market. More than 99% retailer's function in less than 500 square feet of shopping space. The organized sector is expected to grow faster than Gross Domestic Product (GDP) growth in next few years driven by favorable demographic patterns, changing lifestyles, and strong income growth. At this stage, retailers should monitor and performing high-level assessments, they should plan for their strategies.

Objectives

- To understand the impact of retail in urban India.
- To understand the problems being faced by Supply Chain Management (SCM) in organized retail.
- To understand the impact of organized retail in Human Resource Management (HRM).
- The opportunities available in the retail sector in the areas of employment – merchandising, operations, finance etc.

Hypothesis

- Motivation to get employment is less, in organized retail as compared to the opportunities that are available.

The research paper attempts to explore the challenges of Retail trends in India and its possibilities of establishment.

Key words

Supply Chain & Logistics, Merchandising, Customer Relationship Management (CRM), Human Resource, GDP.

Introduction

Retailing involves all activities incidental to selling to ultimate consumer for their personnel family and household use. It does this by organizing their availability on a relatively large scale and supplying them to customers on a relatively small-scale. Retailer is any person/organization instrumental in reaching the goods or merchandise or services to the end users. Retailer is a must and cannot be eliminated.

Retailing is one of the biggest sectors and it is witnessing revolution in India. The new entrant in retailing in India signifies the beginning of retail revolution. India's retail market is expected to grow tremendously in next few years. According to AT Kearney, The Windows of Opportunity shows that Retailing in India was at opening stage in 1995 and now it is in peaking stage in 2006. India's retail market is expected to grow tremendously in next few years. India shows US\$330 billion retail market that is expected to grow 10% a year, with modern retailing just beginning. India ranks first in 2005. In fact, in 2005 and 2006, India is the most compelling opportunity for retailers, because now India is in peaking stage.

In India, the most of the retail sector is unorganized. In India, the retail business contributes around 11 percent of GDP. Of this, the organized retail sector accounts only for about 3 percent share, and the remaining share is contributed by the unorganized sector. The main challenge facing the organized sector is the competition from unorganized sector. Unorganized retailing has been there in India for centuries, these are named as mom-pop stores. The main advantage in unorganized retailing is consumer familiarity that runs from generation to generation. It is a low cost structure; they are mostly operated by owners, have very low real estate and labor costs and have low taxes to pay.

In late 1990's the retail sector has witnessed a level of transformation. Retailing is being perceived as a beginner and as an attractive commercial business for organized business i.e. the pure retailer is starting to emerge now. Organized retail business in India is very small but has tremendous scope. The total in 2005 stood at \$225 billion, accounting for about 11% of GDP. In this total market, the organized retail accounts for only \$8 billion of total revenue.

According to A T Kearney, the organized retailing is expected to be more than \$23 billion revenue by 2010. In organized retailing will grow faster than unorganized sector and the growth speed will be responsible for its high market share, which is expected to be \$17 billion by 2010-11. Retailing will show good prospects in cities like Mumbai, Delhi, Chennai, Kolkata, Bangalore and Kanpur.

The organized sector is expected to grow faster than GDP growth in next few years driven by favorable demographic patterns, changing lifestyles, and strong income growth. This organized retail sector mix includes supermarkets, hypermarkets discounted stores and specialty stores, departmental stores. For example, Spencer network has 69 stores, which includes seven Spencer hypermarkets, three Spencer super markets and 49 Spencer Dailys. Now the company is planning to open 20 stores in 10 cities in six months. The top 10 retailers account only for 2% of total market, today modern retailing is expected to enter a boom phase, which has major players and these players might capture 10% of total market, within next five years. The retail sales in India for future are shown below (data from 2005-2008 is based on estimates):

Growth drivers in India for retail sector

- Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes.
- Liberalization of the Indian economy
- Increase in spending Percapita Income.
- Advent of dual income families also helps in the growth of retail

sector.

- Shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc.
- Consumer preference for shopping in new environs
- The Internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains. Reach of satellite T.V. channels is helping in creating awareness about global products for local markets.
- About 47% of India's population is under the age of 20; and this will increase to 55% by 2015. This young population, which is technology-savvy, watch more than 50 TV satellite channels, and display the highest propensity to spend, will immensely contribute to the growth of the retail sector in the country.
- Availability of quality real estate and mall management practices
- Foreign companies' attraction to India is the billion-plus population.

CHALLENGES OF RETAILING IN INDIA

In India the Retailing industry has a long way to go, and to become a truly flourishing industry, retailing needs to cross the following hurdles:

- * In retail sector, Automatic approval is not allowed for foreign investment.
- * Developed supply chain management is absent in retail sector.
- * Lack of trained work force.
- * Low skill level for retailing management.
- * Cost of business operations is very high in India.

The Hidden Challenges

Modern retailing is all about directly having "first hand experience" with customers, giving them such a satiable experience that they would like to enjoy again and again. Providing great experience to customers can easily be said than done. Thus challenges like retail differentiation, merchandising mix, supply chain management and competition from supplier's brands are the talk of the day. In India, as we are moving to the next phase of retail development, each endeavor to offer experiential shopping.

The next problem in setting up organized retail operations is that of supply chain logistics. India lacks a strong supply chain when compared to Europe or the USA. The existing supply chain has too many intermediaries: Typical supply chain looks like: - Manufacturer - National distributor - Regional distributor - Local wholesaler - Retailer - Consumer. This implies that global retail chains will have to build a supply chain network from scratch. This might run foul with the existing supply chain operators. In addition to fragmented supply chain, the trucking and transportation system is antiquated. The concept of container trucks, automated warehousing is yet to take root in India. The result: significant losses/damages during shipping.

Merchandising planning is one of the biggest challenges that any multi store retailer faces. Getting the right mix of product, which is store specific across organization, is a combination of customer insight, allocation and assortment techniques.

The private label will continue to compete with brand leaders. So supplier's brand will take their own way because they have an established brand image from last decades and the reasons can be attributed to better customer

experience, value vs. price, aspiration, innovation, accessibility of supplier's brand.

Planning, lean systems and staff should help retailers to get advantage over competitors.

A. SUPPLY CHAIN MANAGEMENT

The key success factors in any business are understanding consumer behavior, delivering the right product at right time at a right cost, and giving consumers that extra value which creates delight. In this high-speed organized retail evolution, where there is fierce competition and thinner margins with the volume game in place, consumers go with those retailers who offer excellent price-quality ratios.

The success of any retail format depends on four factors – infrastructure, product mix (selection of merchandise), marketing and customer care – and efficient supply chain management support.

The biggest challenge for retailers is to find the appropriate location and real estate properties at the right sites. Infrastructure for an efficient logistic operation is crucial to offer value added services to retailers to meet their requirement.

The “behind the scenes” performer is LOGISTICS AND SCM” which play a vital role in handling A-Z logistics needs of the customer. The logistics functions begin right from custom clearance, primary movement of bulk, warehousing, inventory management, pick pack, labeling and above all – reaching the required products to the end location – retail stores – on time in a highly cost effective manner. This is what eventually determines the retailer’s bottom-line – thinner or thicker.

In today's competitive market situation, most marketers and manufacturers, especially MNCs in India, are keen on outsourcing their logistics and SCM activities so that they could focus on their core activity area as Marketing, R&D, and Customer Satisfaction to create competitive edge to curtail the decreasing profit margins in the fast changing market dynamics.

Just in time processes (inventory load is equal to demand), in store stock balances, high inventory turn (high off takes of SKUs on shelves) and lower carrying costs will optimize the profit margin of any efficient retailer.

Logistics and SCM has now become a strategic and value added function in retailing. Proper implementation of these processes can enable high customer and supplier satisfaction and there by achieve a sustainable growth.

To have an independent SCM and set up by any retailer attracts huge costs in terms of infrastructure, technology and high caliber human resources to handle it. In the process of reducing order, replenishment cycle and the inventory cost, it is very important to have a logistics partner with whom the retailer can be a single window operator as a committed business partner. If this role is handled by an efficient logistics & SCM partner, a retailer can focus on increasing footfalls, in store category management and customer care to generate swift responses to all queries and ensure overall quality management at store to make the shopping experience seem like as a celebration to the end consumer.

B. SHRINKAGE

For most retailers, it is fairly clear what the most stolen items are, but nevertheless retailers are normally only able to identify a small proportion of their losses through crime. They may not even be completely certain whether the majority of their losses are caused by shoplifters or by their own staff.

To combat or prevent crime, even the most fortunate retailer has to spend money on procedures, training, security staff and equipment if the business is to keep crime losses low. The overall impact of crime upon retail businesses is massive.

Indian businesses have to face the possibility that part of the gains of progress may be taken from them by criminals.

“Shrinkage” or stock loss is calculated from the difference between expected receipts (based on deliveries to stores) and actual receipts and is critical to close control of retail losses. However shrinkage itself is affected by waste, accounting errors and poor price control as well as crime- which also need to be scrutinized regularly in order to keep losses under control.

Policies and procedures, accounting systems, accuracy and better staff training are all ways in which retailers can reduce the share of losses caused by “internal errors.”

No one knows whether the crime problems in India are primarily customer-based or staff-based or indeed what the pattern will be like in the coming years to come. (Refer Figure 1).

Accurate information is critical. Retailers have to be alert to the fact that there are a large number of potential sources of loss. The war against crime and loss is a war of constant attrition where the enemy is constantly probing to find weaknesses, the retailer needs to get right many small things rather than implement one or two major policies.

C. EFFECTIVE PERFORMANCE

It is estimated that the growing middle class in India has swelled to 400 million with a concomitant parallel rise in amount of disposable income. Correspondingly, we witness the rise of changing consumer trends such as increased use of credit cards, brand consciousness and the growth of population under the age of 35, which are compelling factors which will continue to fuel growth in the retail sector.

The Indian retail sector is set to explode. In this phase of heavy demand and rising foreign competition, the Indian retail industry must continually enhance its competitiveness as well as managing its effectiveness – to tackle ongoing business through implementing best retail practices from other developed nations.

Retail technology is an important factor in business performance. Planning, inventory, analysis, management information systems are crucial to effective retail business performance. This will enable them to manage demand fluctuations and respond quickly and effectively - to business opportunities.

Technology deployment is easy and extremely cost effective because of its “start anywhere” modular approach. It provides a long term, scalable solution that can manage the real time visibility throughout a retail organization.

D. MALL RENTALS

The limited basket of large scale organized retailers shows a clear graph of demand-supply imbalance, especially with the exponential growth of mall and heavy rentals charged in malls. For the developer, this means inability to create distinctive positioning of the mall and also inability to replace a “not so well” performing retailer with a better performing one. Faced with severe

“anchor” crunch – mall developers have to facilitate anchors by reduced rentals from the original lease rentals.

Some developers have also suggested the option of shorter lease terms with retailers so as to gain more flexibility.

According to the market research – rent is defined as the return on investment or a pay back. The developers fix a specific amount according to the cost incurred and the yield they require from the property developed.

- Our landowners and developers can't wait 25 years for returns as the future is completely uncertain. Hence they acquire, design and build as quickly as possible.
- Little or no thought is given to winning an anchor tenant who will last the distance with an aspirant consumer over the next 25 years.
- Since India does not have a lot of experience in the successful development of shopping centers, the brokers are insufficiently experienced to provide the inputs and advice required. In many cases brokers oversell the development.
- Anchors generate mall traffic that indirectly increases the sales of lesser known mall stores. Mall developers internalize these externalities by offering rent subsidies to anchors and by charging rent premiums to other mall tenants.
- Most retailers in malls across the country are finding it difficult to break even.
- The retailer and the developer are at a stage where the relationship is such that you talk business with them twice – at the time when you are signing the deal and at the time when you are renewing the deal. The

worry is that because of either the land price or the business model of development, things are not right.

- Shifting to a revenue sharing model would help in controlling the high rental practices.
- Developers should concentrate on planning the right tenant mix, which will ensure long term sustainability.

E. LACK OF “QUALITY PEOPLE”

It is estimated that directly and indirectly over 25 lakh jobs will be created by the retail sector. However, talent shortage is counted as one of the top bottlenecks in the Indian retail context. It is estimated that the country will witness a huge shortfall, by almost a million people or so in the retail sector, in the next 4 to 5 years.

While this is great news for the employment generation potential of this sector, getting access to such a vast pool of trained manpower in a short period of time is a significant challenge.

Organized retail in India is in its nascent stage and this has resulted in very few professionals who are competent to teach the various retail-specific subjects. The existing faculties in various institutions, with due respect, also do not have sufficient exposure to the industry to be able to capture and translate the nuances of the industry into their teaching material and methodology.

Frustrated by the constant hunt for qualified candidates, many retailers have now decided to take matters into their hands, and have involved themselves with academia to nip the problem in the bud.

While there is a lot of interest in retail as a career, many don't realize that it isn't as glamorous as it seems from outside. It is real hard work; this results in perceptual mismatch when it comes to students who opt for a career in retail.

For the front-end staff, there is a need to inculcate sound personality traits, listening abilities, energetic salesperson and proficient communication skills.

The most successful combination is a professional having hands-on retail experience and passion for imparting that knowledge.

The cultural and social mindset of our country makes it even more difficult to motivate the youth to enter the retail sector. Moreover, the education system is not geared towards training potential employees in this area. The education system has done precious little to address this changing paradigm and demand in business. These factors have led to skilled manpower shortage in this sector. And the irony of the situation is that India has over 40 lakh unemployed graduates at a time when employers are desperate for talent.

Presently the gap lies in finding people with the right skill sets, like customer orientation and selling, which is critical. This problem exists in both in-store and non-store resources available in India. Though senior managers from the Fast Moving Consumer Goods (FMCG) sector are quick to learn and adapt to the demands of retailing, and can still address the gap in the managerial cadre, some still lack the competency levels expected of them. Also Supply Chain Management and customer relations followed by merchandising, facilities management and vendor development are areas that need to be addressed.

With an ever-changing environment and rising competition, it has become essential for the employer to provide constant learning to their staff members and to go that extra mile to keep them motivated.

This is because “the quality of service that customers receive from the staff never exceeds the quality of service that the staff receives from the manager.”

It is time to invest in people, not only because the single largest cost for a retailer is the manpower cost, but also because people are the infrastructure or the “brand ambassadors” of the retail industry.

As a result of training, employees develop a greater sense of self-worth and well-being, as they become more valuable to the firm and to the society. Training also makes an organization well-equipped to keep pace with the fast changing dynamics of business.

The study was done by the author while meeting with the staff, personally and after their duty hours or during their break timings. There is no proper questionnaire available as such – but enough data was available to prove the study right.

F. FOREIGN DIRECT INVESTMENT (FDI) IN RETAIL

The retail sector has been repeatedly hailed as the “sunrise sector” but has also been caught in the crossfire of differences in policy directions. While proponents of FDI in retail say that opening the sector is only a question of time, opposition has stemmed from many fronts. Much research has been done to show the number of people (farmers, traders and other middlemen) dependent on retail trade and many say that they will be adversely affected if the sector is opened up to FDI. The current round of discussion comes in the face of rising global prices of oil and food grains. In 2004, the UPA government allowed up to 51% FDI in retail but only for “single brand retailing”. FDI inflows for the period April 2007 to February 2008 amounted to a little over US\$ 20,000 million with Services (financial and non-financial) and Computer Software and Hardware the leading recipients of FDI in India.

The Government has decided to allow FDI up to 51%, with prior Government approval, in retail trade of 'Single Brand' products. This is, inter alia, aimed at attracting investments in production and marketing, improving the availability of such goods for the consumer, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices.

FDI up to 51% in retail trade of 'Single Brand' products would be subject to the following conditions:

- i. Products to be sold should be of a 'Single Brand' only.
- ii. Products should be sold under the same brand internationally.
- iii. 'Single Brand' product-retailing would cover only products which are branded during manufacturing.

FDI would be allowed only with prior approval of the Government. Application seeking permission of the Government for FDI in retail trade of 'Single Brand' products would be made to the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion. The application would specifically indicate the product/ product categories which are proposed to be sold under a 'Single Brand'. Any addition to the product/ product categories to be sold under 'Single Brand' would require a fresh approval of the Government.

Applications would be processed in the Department of Industrial Policy & Promotion, to determine whether the products proposed to be sold satisfy the notified guidelines, before being considered by the FIPB for Government approval. (Refer Figure 2).

FIGURE / CHART / TABLE

FIGURE 1

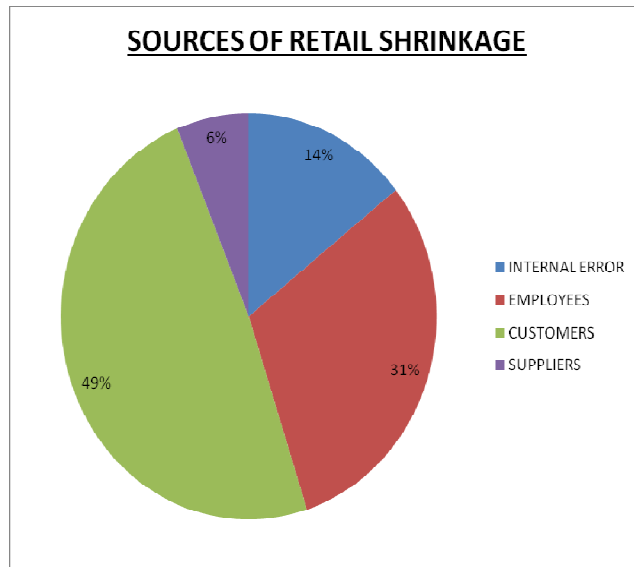


FIGURE 2

