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**Modernisation in Indian retailing:
Managerial and policy perspectives**

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ABSTRACT

The structure of a country's retail sector has an enormous influence on marketing strategy and marketing activities of firms. The Indian retail sector has arrived at a very critical stage. Stores in modern formats have emerged in the metropolitan cities but the bulk of the retail sales happen through traditional retail formats. The development of modern retailing is of great interest to marketing scholars, practitioners and policy makers. This paper analyses the developments in retailing in India. A literature survey of retailing in India and some newly industrialized countries is carried out. Factors stimulating modernization are discussed and some implications for managerial action and policy are derived.

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Introduction

Retailing has been defined as business activities involved in selling goods and services to consumers for their personal, family or household use (Berman and Evans, 2001).

Although retailing has been around for millennia, the 20th century witnessed a lot of change in the retail sector, especially in the developed countries. Modern formats such as department stores, discount stores, supermarkets, convenience stores, fast food outlets, speciality stores, warehouse retailers and hypermarkets have emerged. Retailing has become more organized and chain stores have been growing at the expense of independent shops. The chains are utilizing sophisticated information technology and communication to manage their operations and have grown rapidly not only within their home countries like US, UK, France, Germany and Holland but to other developed countries. Walmart Stores, the US retailer, was recognized as the largest firm in terms of sales in 2002 in Fortune magazine's list of 500 largest global firms. Modern retail formats have also spread beyond developed countries and are becoming more important in the NICs and developing countries.

Modernisation in Indian retailing

The emergence of new formats and the evolution of modern retail in India has attracted attention in recent years. The business press in India has carried several articles and news items in the last three years about the modern formats (Shukla 2001; Anand & Rajshekhar, 2001; Bhattacharjee, 2001). The consulting firm KSA Technopak has organized retail meetings or summits in major metros which have witnessed participation from major domestic and international retailers, and also from manufacturers. Venugopal (2001), has discussed the census studies of retail outlets that the market research firm ORG MARG conducted in the 1990's. This census provided data and estimates on a number of parameters relating to Indian retail such as number and type of outlets and growth of outlets over time separately for urban and rural areas. Due to these reports and activities, there is good deal of information available about what is happening in Indian retail. However Indian retailing has received sparse attention by way of academic research with the exception of a few articles in academic journals and some case studies.

The purpose of this paper is to develop an understanding of the factors influencing the evolution of modern formats in Indian retailing and to derive implications for managerial practice and policy. The paper is structured into three sections. In the first section academic journal articles about Indian retailing are reviewed in order to identify established findings about Indian retailing. The second section consists of a review of the

literature relating to the development of modern retailing in a few newly industrialized countries with a view to examine if the patterns of retail development in these countries could occur in India. The third section analyses the process of modernization in the Indian retail sector, makes a prognosis about the likely pattern of future development of retailing in India and derives implications for practice and policy

Overview of Indian retail sector.

Indian retailing is undergoing a process of evolution and is poised to undergo dramatic transformation. The retail sector employs over 8% of the national workforce but is characterized by a high degree of fragmentation with over 5 million outlets, 96% of whom are very small with an area of less than 50 m² (Aggarwal, 2000). The retail universe more than doubled between 1978 and 1996 and the number of outlets per 1000 people at an All India level, increased from 3.7 in 1978 to 5.6 in 1996. For the urban sector alone, the shop density increased from 4 per 1000 people in 1978 to 7.6 per 1000 people in 1996 (Venugopal, 2001). Because of their small size, Indian retailers have very little bargaining power with manufacturers and perform only a few of the flows in marketing channels unlike in the case of retailers in developed countries, (Sarma , 2000).

The corner grocer or the ‘ kirana’ store is a key element in the retail in India due to the housewife’s unwillingness to go long distances for purchasing daily needs. An empirical study was carried out by Sinha et al (2002) to identify factors that influenced consumers’ choice of a store. Although convenience and merchandise were the two most important

reasons for choosing a store, the choice criteria varied across product categories.

Convenience was indicated by consumers as the most important reason in the choice of groceries and fruit outlets, chemists and lifestyle items while merchandise was indicated as the most important in durables, books and apparel.

The traditional formats like hawkers, grocers and paan shops co exist with modern formats like supermarkets, and non store retailing channels such as multi level marketing and teleshopping. Example of modern formats include department stores like Akbarallys , supermarkets like Food World, franchise stores like Van Heusen and Lee, discount stores like Subhiksha, shop-in-shops, factory outlets and service retailers (Nathan , 2001). Modern stores tend to be larger, carry more stock keeping units have a self service format and an experiential ambience. Modern formats also tend to have higher levels of sales per unit of space, stock turnover and gross margin but lower levels of net margin as compared to traditional formats (Radhakrishnan, 2003). Modernisation in retail formats is likely to happen quicker in categories like Dry groceries, electronics, Mens' apparel, Books, Music. Some reshaping and adaptation may also happen in Fresh groceries, Women's apparel, fast food, and personal care products (Fernandes et al, 2000).

In recent years, there has been a slow spread of retail chains in some formats like supermarkets, department stores, malls and discount stores. Factors facilitating the spread of chains are the availability of quality products at lower prices, improved shopping standards, convenient shopping and display, and blending of shopping with

entertainment, and the entry of industrial houses like Goenkas, Rahejas, Piramals and Tatas into retailing (Ramaswamy and Namakumari, 2002).

However formats are not easily scalable across the country. Several companies have found that it is not easy to expand beyond some regions and cities as evident from the examples of Margin Free Market and Foodworld, which are active only in a few states or cities. Affordable real estate prices and availability of sufficient number of economically well off households in the catchment area are critical requirements that will determine new store viability and thus the possibility of further expansion (Anand and Rajashekhar, 2001).

According to Rao (2001), foreign direct investment in the retail sector in India, although not yet permitted by government, is desirable, as it would improve productivity and increase competitiveness. New stores will introduce efficiency. Customers also gain as prices in the new stores tend to be lower. The consequences of modernization in India may be somewhat different due to lower purchasing power and the new stores may cater to only to branded products aimed at upper income segments. However it will be wise for old style stores to join together into wholesale and retail groups to improve bargaining power as experience in developed markets such as UK has shown that the modernization in retail has led to the decline of independent mom and pop stores.

The need for a fresh perspective while developing theories to explain the new developments has been stressed by Bennett et al (1998). The Indian retail environment is

witnessing several changes on the demand side due to increased per capita income, changing lifestyle and increased product availability. Experience of retailing in US shows that existing theories of retail development based on changing consumer needs, are inadequate to explain new developments. In developed markets, there has been a power shift with power moving from manufacturers towards retailers. The strategies used by retailers to wrest power include the development of retailers own brands, and the introduction of slotting allowances which necessitate payments by manufacturers to retailers for providing shelf space for new products. Retailers have also used technology effectively to obtain usable information about consumer buying patterns. The increased power of retailers has led to the introduction of new tactics by manufacturers such as everyday low pricing, partnerships with retailers and increased use of direct marketing methods. Because of these issues, a supply side perspective needs to be fused with the demand side in developing theories for explaining modernization in retail.

Retail development in NICs

Thailand is one of the countries whose economy has developed rapidly in recent years. In Thailand, there has been a tradition of independently owned outlets called shop houses. These outlets were run by families, with the shop located on the ground floor and the family's living quarters on upper floors (Feeny et al, 1996). Thailand's first department store opened in 1956, and the first shopping centre in 1967. The first branded convenience stores emerged in the mid-80's, but these stores were not very successful. Thai shopping habits and spending was still attuned to traditional shop houses and

disposable incomes were short of critical takeoff. Since the 1990's however, economic growth, more investment in retail and increasing westernization in lifestyles has led to a faster growth of convenience stores. The master franchise for 7-11 in Thailand is CP, a major Thai business group whose standing, influence and experience have been a key to the success of 7-11 in Thailand. Discounts and superstores were introduced in 1989 by the Dutch firm Makro in a joint venture with CP and have been a huge success. However the presence of the supermarket format has been low due to ingrained habits of buying fresh produce. Most sales in this format are accounted for by supermarkets attached to department stores. Speciality stores, especially category killers were just emerging in Thailand in the mid 1990's.

Bennison and Boutsouki (1995), have analysed the development of modern retail in Greece. Although not a classical NIC, Greek retailing has been dominated by small independently owned and operated shops and modern retailing came to Greece only after 1991 in response to the need to harmonise legislation for a single European market. During 1951-1990, Greek retail was characterized by a high density of 17 outlets per 1000 population compared to 5.9 for Germany and 6.1 for UK. During this period the number of outlets more than doubled as limited employment opportunities and low entry costs made retailing an attractive vocation. Greek retailing witnessed dramatic change in the 1990's. A large superstore hypermarket was introduced in 1991. This was followed by the entry of large cash and carry stores such as Makro, foreign department stores such as Marks and Spencers, supermarkets and a wave of franchising to Greek companies by international companies such as McDonalds, Bennetton, Pizza Hut and Body Shop

Another country where the development of the retail sector has also followed an interesting path is Brazil. The concept of self-service in shopping was introduced to Brazil in 1953 but until 1972, there was no foreign influence in the Brazilian retail sector. Food retailing especially, continued to be Brazilian owned and managed, although international innovations were adopted (Alexander and Silva, 2002). In 1972, the Dutch group Makro entered Brazil followed by Carrefour in 1975 and Ahold in 1996. The 1990's have witnessed the introduction of technological innovations in retailing like Electronic Data Interchange (EDI), retailer credit cards, retailers' own brands and efficient consumer response (ECR). Organisations like Carrefour and Walmart have set up centralized distribution centres with electronic communication with suppliers. Shopping centres are becoming important in the retail landscape because they provide a variety of entertainment facilities that draw people to the retail stores. The number of intermediaries in marketing channels is decreasing as the operation of traditional wholesalers is under threat from the direct contact between retailers and suppliers, although a few specialized distributors have emerged who provide value added services such as distribution of frozen and chilled food.

Factors underlying evolution of modern retail in India

The foregoing review has provided some information that enables the construction of a framework for analyzing the retail development in India. The driving forces towards

development can be broadly classified into categories shown in Table 1 below, which is followed by a discussion on each of the driving forces.

Table 1 about here

Economic development

The development of the Indian economy is a necessary condition for the development of the Indian retail sector. The example of Thailand shows that the impetus to modernization of retail was provided by the economic boom in Thailand (Feeny et al, 1996).

Development increases the disposable income in the hands of consumers and leads to an increase in the proportion of spending on discretionary non- food items. Economic development also enfranchises new households as potential customers for modern retail and leads to increased ownership of personal transportation among consumers, which in turn can increase their willingness to travel longer distances to shop in new format stores. The growth of the economy can also provide gainful employment to those who would otherwise enter retailing in areas like hawking, roadside vending and other similar low cost entries into the retail sector. Rapid economic development may also positively influence the views of international retailing companies about the business prospects and investment attractiveness in a country. A high degree of inflation in the economy is

however, not conducive to modernization of the retail sector. In Brazil, the real progress in retail was noticed only after the stabilization of the economy and control of inflation (Alexander and Silva, 2002). Development also has an influence on the regions and cities where modern formats are initially set up. In the Greek, Thai and Brazilian cases, modern formats initially appeared in the important cities. This has been noticed in India as well as the modern formats first appeared in the metros like Delhi, Mumbai and Chennai and the mini metros like Bangalore and Hyderabad due to the comparatively higher level of disposable incomes available in these cities.

Improvements in civic situation

The civic situation includes factors like safety and security in the city and the various municipal regulations governing the opening, location and operation of stores, and the nature of public transport available. A safe and secure environment will encourage the setting up of 24 hour convenience stores and the operation of shopping plazas and encourage shopping expeditions for the whole family. The presence of adequate parking facilities or excellent public transportation will encourage consumers to be more mobile in their choice of store. City or state regulations on opening or closing hours, rent control laws, availability of adequate electrical power and regulations relating to licensing will affect both the time required to set up a new store as well as the cost of store operation and its viability. Many of the civic factors mentioned above would be dependent on the economic development and administrative policies in the area. The impact of the civic

situation may influence the choice of the cities, states, zones in which the modernization investments will be made.

Changes in consumer needs, attitudes and behaviour

The growth of modern retail is linked to consumer needs, attitudes and behaviour. Marketing channels including retailing emerge because they receive impetus from both the supply side, and the demand side. On the demand side, the marketing channel facilitates provides service outputs that consumers value. These service outputs may include but are not limited to bulk-breaking, spatial convenience, waiting and delivery time and assortment (Coughlan et al, 2001, pg 30). In Indian retailing, convenience and merchandise appear to be the most important factors influencing store choice, although ambience and service are also becoming important in some contexts (Sinha et al, 2002). Modernisation will have to address convenience issues while presenting strong alternatives to the weaknesses of traditional formats in selection of merchandise available for sale. Modern formats need not be expensive and can offer lower prices to consumers (Rao, 2001). Lower prices in turn will increase the attractiveness of modern formats and rapid growth in the preference for purchasing from new format stores.

Store ambience includes issues such as lighting, cleanliness, store layout and space for movement. Modern stores can offer a far better ambience compared to traditional stores. On the service front, traditional stores especially kirana stores offer credit and home

delivery. These needs will have to be addressed by new format. Experience from Brazil shows that the combination of entertainment and shopping provided by some shopping centres, is attractive to consumers. This may become important in India as well because of the limited entertainment options currently available in cities. While consumer needs, attitudes and behaviour will influence the development in retail, it is likely that investments in retailing and the creation of new stores offering value will in turn influence consumers. This appears to have happened in Greece, Thailand and Brazil.

Changes in government policies

The Indian government has clarified on a number of occasions that foreign direct investment will not be permitted in India. Major international retailer organizations will be watching for signals of policy change especially because China has permitted foreign investment in retail. In opening up the retail sector, the government may consider various approaches such as insisting on joint ventures, limiting the foreign stake, or specifying the cities areas where investment is permitted. Thailand's example shows that in case of joint ventures, the local partner can play a significant role in the success of the joint venture. The Brazilian experience shows that local retailing groups can successfully compete against international chains if they adopt innovations and restructure operations in accordance with market needs. Some policy protection can be given to consumer cooperatives which have been providing value to their members and customers. This protection can be in the form of allowing these organizations to access capital from the local market and operate in a more professional manner. The government can also play a

positive role in simplifying or eliminating the plethora of regulations governing retailing. Specific laws relating to franchising will also be desirable for foreign and Indian brand owners to adopt the franchise route in a bigger way.

Increased investment in retailing

The prospects for significant modernization and development in retailing will depend on the nature of investment in this sector. The investment will be of two types- foreign and domestic. The quantum and nature of investment will depend on the factors outlined earlier namely economic development; civic situation; consumer needs, attitudes and behaviour; and government policies.

Although FDI is not yet permitted in retailing, a number of global retailers are testing the waters by signing technical agreements and franchises with Indian firms. Fast food chains like McDonalds and Pizza Hut are already operating in the metros. A Marks and Spencer store is already operational in Mumbai. Several global retailers are awaiting a change in policy. However, the development of the Indian retail sector is dependent not just on foreign investment but on Indian investment as well. Since the 1980's industrial groups such as Reliance and Raymonds have been active in encouraging development of well appointed exclusive showrooms for their textile brands. In the 1990's industrial houses like Rahejas, Piramals, and Tatas have entered retailing. Several Indian and foreign brands have used franchising to establish exclusive outlets for their brands.

At present the new format stores cater mostly to households belonging to the higher income families. The catchment area for these modern stores has to be fairly large as the number of such households is small in relation to the total population. This limits the number of stores and constrains the growth of chains. The modern stores have also been plagued by low conversion in relation to the number of footfalls. This means that although a large number of people visit the store, the number of buyers and the average bill amount is small. Due to low sales, the bargaining power of the retailers with suppliers and manufacturers is low and this restricts their average gross margin. On the other hand the expenses involved in setting up and maintaining a modern format store tend to be much higher than traditional store due to the additional expenses on larger size, better locations and superior ambience. Therefore if the returns on investment in the new formats have to be attractive, modern retailers have to develop a strong supply chain that provides them significant gross margins while delivering merchandise at attractive prices to customers. In order to do this, modern retailers will need to eliminate middlemen and buy directly from suppliers and make use of technology to control inventory. These developments will impact the survival and existence of middlemen such as wholesalers and agents who will have to find new business models to survive. Manufacturing firms will also face pressure from strong buyers on price, delivery and service terms.

Increase in power of organized retail

Bargaining power of organized retail translates directly into higher gross margins for the retailers. At present there are a large number of independent retailers with little

bargaining power vis a vis manufacturers, distributors and wholesalers. Manufacturers have been promoting their brands and generating consumer demand for branded products. This makes it necessary for all varieties of stores especially in urban areas to stock branded products. Manufacturers take advantage of the consumer pull to limit margins to the retailers. Retailers manage their profitability by operating on a very low cost basis. This is possible because of low rental expenses due to historical reasons and low labour costs due to employment of family members in the store. The modern stores have somewhat higher gross margins, but their net margins are not very significant for providing the cash flow required to fuel rapid growth in outlets.

Retailers can increase their power in several ways. They can invest efforts in developing their own store brands. The supermarket chain Foodworld has begun doing this in a limited way with foodgrains and pulses. Secondly they can invest in supply chain, buy directly from the sources and eliminate middlemen. Thirdly they can attempt to obtain volumes in buying by aggregating the requirements of various stores, and bargaining for better prices by placing large orders. Although this strategy suits chain stores, independent grocers may also get together by forming a cooperative or buying club in order to benefit from scale economies in purchasing. Retailers can also obtain several benefits from using information technology. They can monitor their stocks and sales using IT and thus manage their working capital more efficiently. They can also analyse data about customers and their buying habits and be in a position to develop marketing strategies and promotional offers to increase customer purchasing at the outlet.

Manufacturing firms will need to develop new strategies for dealing with powerful retailers. The first change required will be one of mind-set. Negotiations with powerful retailers will have to be carried out at much higher executive levels within the firm. New structures such as National account managers, Category managers etc. would need to be deployed. Firms will have to reconsider their brand promise, brand promotion and their brand building policies to deal with store brands that will be introduced by retail chains. Firms will also have to re engineer their logistics policies to meet the demands of powerful retailers for just in time delivery to their distribution centres or stores. New product introductions will have to be coordinated with the retail chains so that adequate shelf space is available at launch. The firms will need to carefully look at their product cost structures both in terms of variable cost and allocated fixed costs in order to maintain profitability in the face of pressures for price reductions from powerful retailers.

Conclusion

The Indian retail sector is largely traditional, but stores in modern format are emerging. The contribution of organized retailing in the share of retail sales in India is currently very small. Based on an analysis of retail developments in countries such as Thailand, Brazil and Greece, and some experience in India, it is possible to conclude that modernization of retailing in India would be influenced by some important factors. These factors include economic development; improvements in civic situation; changes in consumer needs, attitudes and behaviour; changes in government policies; increased investment in retailing and rise in the power of organized retail. The development of

modern retail will have several implications for managerial practice in manufacturing firms. Firms will need to proactively review and their sales structures, brand activities, logistics policy and price structure to cope with pressures from powerful retailers.

Table 1

Factors underlying modernization in retailing

Sr. No.	Underlying factors
1	Economic development
2.	Improvements in civic situation
3.	Changes in consumer needs, attitudes and behaviour
4.	Changes in government policies
5.	Increased investment in retailing
6.	Rise in power of organized retail

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