

Changing Pattern of the Indian Market: Strategic Issues

Ravi Shanker

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Abstract

Indian market has emerged as one most significant market in terms of increase in purchasing power and a gradual shift towards more aggressive consumerism. The lack of infrastructure, proper banking facilities on one hand, and low literacy rate, low disposable income on the other hand are typically the unique features of the Indian market. The gaps are now being bridged and the Indian market is on the threshold of a boom. The investment in organised retail with the changing consumption patterns are evidences of growth and development in the Indian market. The paper tries to focus on the changing paradigm of the Indian market and the opportunities existing for the foreign investors. With immense pressure on the growth of the Indian market there remains a very high probability of the opening up of the entire retail sector as it is expected to rise to US\$ 1.3 trillion by 2018, The total retail (organized and unorganized) industry in India is estimated to be Rs 20 lakh crore in 2010. This is expected to reach Rs 27 lakh crore by 2015. Organized retail, which is estimated to be Rs 1.0 lakh crore (5% share) in 2010, is projected to reach Rs 3.0 lakh crore (11% share) by 2015. This means a tripling of the current size and scale of organized retail in the next five years, i.e. 2010-2015. Organized retail will grow at a fast pace. (Raghav Gupta et al). India has emerged the third most attractive market destination for apparel retailers and one of the largest numbers of retail outlets in the world. Thus the paper underlines the strategic issues pertinent to the growth of the Indian market specific to the retail market in India.

1. Introduction

Following a series of reforms beginning in the early 1990s, India has enjoyed over a decade of strong and accelerating growth. From 1995–2000 India's gross domestic product (GDP) clocked a compound annual growth rate of 5.8 percent, which increased to 6.8 percent from 2000–2010 and also real GDP increase from 6.2 percent (2006) to 7.2 percent (2011) . As India's economy has grown, so too has the spending power of its citizens. Real average

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household income in India has roughly doubled over the past two decades. Along with rising incomes have come greater consumption and the emergence of India's much discussed new middle class[†]. Projections of Oxford Economics assume an 8.0 percent annual GDP growth rate between 2009 and 2018, stabilizing to 7.0 percent between 2018 and 2030. From 2008 to 2030, therefore, annual GDP growth is an average of 7.4 percent.

As business leaders scan for new opportunities over the coming decades, one of the most significant will be the creation of a vast new pool of consumers arising out of the world's emerging economies. India's path to high growth rates has been different from its Asian counterparts such as China, Indonesia and Malaysia. The clearest distinction is in the importance of services relative to industry. Whereas the East Asian model has emphasized moving up the manufacturing value-chain, services have been the key driver of India's GDP growth. The share of services in India's GDP at factor cost (at current prices) increased from 33.3% (1950-1951) to 56.5% in 2012-13, as per advance estimates. Including construction, this would increase to 64.8% putting it between China at 41 percent (excluding Hong Kong) and the United States at 79 percent. The best-known example of India's service sector growth is its information technology (IT) and business-process-outsourcing (BPO) sector, whose success has been built on factors such as telecoms deregulation, falling technology costs and the availability of educated, English-speaking workers. However, it would be a misconception to imagine that India's service sector growth is all about IT/BPO. Although this sector has grown rapidly—over 20 percent per annum in the last decade—it still remains a small part of India's overall economy, accounting for less than 2.5 percent of GDP today. India's services-led growth model has been far broader with large sectors such as banking, retail and health care enjoying 8 percent-plus growth during the 1990s.

[†] R.K. Shukla, S.K. Dwivedi, Asha Sharma, *The Great Indian Middle Class: Results from the NCAER Market Information Survey of Households*, National Council of Applied Economic Research (in association with Business Standard), 2004.

Marketing and Distribution strategies in India have gone through substantial changes with the concept of consumerism gradually started seeping. The Indian market has become increasingly attractive for global marketers, an amount sufficient to sustain purchases of foreign consumer products. Foreign marketers in diverse sectors, from automobiles and consumer electronics to soft drinks and fast food, have entered the Indian market and are competing with domestic marketers. An essential requirement for marketing success in India is access to local channels of distribution. Most products sold in India in a tiered distribution system: distributor, wholesaler, and dealer/retailer. Most channel intermediaries are small and relatively unsophisticated operators, unlike the large chains commonly seen in the west. They are often family-run businesses bound in a cultural tradition where bargaining and negotiation are common business practices. To remain competitive in the attractive Indian market, foreign suppliers must be able to effectively manage their relationships with local intermediaries. The key to this would be using the right influence strategies which would help the supplier attain its business goals, but which would also keep the intermediaries satisfied, motivated, and performing.

A source firm towards a consumer with an intention to cause direct influence strategies a change in the latter are behaviour (Frazier and Summers, 1984). The vastly different cultural environment in India likely means that influence strategies commonly used in the west may not be effective in the Indian market and local adaptations need to be made. In this article we undertake the patterns of suppliers' strategies to influence Indian dealers and the immense opportunities existing in the Indian retail with a diversified consumer basket.

Legal pleas are not likely to be used widely in a relatively traditional culture of India where relationships are governed more by social norms than the word of law (Terpstra and David, 1991). The high-context nature of the Indian culture (Hall, 1976) does not place a high value on formalized expressions since the meanings of words used in communication tend to be more subjective and amenable to different interpretations. Businesses in high-

context cultures do not emphasize rules and regulations to the extent that businesses in low-context cultures do (Terpstra and David, 1991). The threat strategy is likely to be used even less because it is intimidatory by definition, and the relatively more symmetrical power balance situation in Indian marketing channels mean that dealers are probably not going to take obvious threats from suppliers lying down. Favors in exchange of desired actions are common and often expected in many traditional societies such as India. In economically less affluent environments, the promise of some reward is usually highly effective in getting others to perform desired acts (Kinsey, 1988).

The present paper attempts to analyse the emerging trend of the changing consumer patterns of the Indians and tries to identify the strategies to be undertaken by the investors to penetrate the Indian market. The paper is divided into the following sections. Section 1 provides the introduction of the Indian market which is quite diverse in nature. Section 2 talks about the demographic profile of the Indian consumers. Section 3 discusses the changing consumption pattern of the Indian consumers and highlights the major consumption trends by which the Indian consumer stands different. Section 4 talks about the changing pattern of the Indian distribution system from a strategic perspective in response to the growth of the retail sector. This is followed by section 5 which illustrates the birth of the retail in India and what are the different patterns of the segments of retail prevailing in India. Section 6 which discuss the growth prospects of the retail sector in India as a reflection of the change in consumerism in the India and followed by section 7 which discusses the policy issues in Indian retail sector. Section 8 provides the summary.

2. Demographic Profile of the Indian Consumers

As the Indian economy is moving into the higher growth path, the rapid changes in income level and consumption patterns have been the subject of interest, debates and analysis. Rising per capita income, increased literacy and rapid urbanisation have caused

rapid growth and change in demand patterns. The rising aspiration levels, increase in spending power has led to a change in the consumption pattern.

Essential items such as food, beverages, rent and fuel accounted for 82% of consumption in 50-51, and 78% after 20 years, a shift of about 4%. By 90-91, these items accounted for 64% of consumption, a shift of 14 points, a much larger shift as an under penetrated economy gathered pace. During the last 17 years, the trend has accelerated further and today essential items account for fewer than 40%, still high by developed country standards but significantly down from earlier periods. India is beginning to see the first signs of a long-term consumption boom as a result of rising disposable incomes, higher life expectancy, rapid urbanisation and changing lifestyles.

With the advent of shocks from the global crisis mainly in the second half the financial year 2008-09 the industrial output experienced decline towards the end of 2009.. The budget for the current year has allocated significant level of resources to rural development.

The India's economic growth has accelerated significantly over the last two decades and so too the spending power of its citizens. The real average disposable income has soared and a new middle class has emerged. Yet much remains unknown about how India's consumer has evolved. There are large differences in income, expenditure and savings patterns between rural and urban India. Urban households earn around 85 per cent more than rural ones, spend three-fourths more and, as a result, save nearly double that of rural households. Much of this can be explained by differences in profession and education. Even for the same profession and levels of education, urban earnings are higher. A survey conducted by NCAER in 2005 - The Great Indian Middle Class - defines the middle class as those households with an annual income of between Rs 2-10 lakh at 2001-02 prices. The lowest income quintile accounts for 22.4 per cent of the population and just 6 per cent of income. But India is changing rapidly - the middle class, which accounted for 2.7 per cent of the population in 1995, now accounts for 8.3 per cent. However, regional disparities are a

matter of concern. Two-thirds of the poor reside in the 10 low income states. The findings of the Max New York Life NCAER India Financial Protection Survey released in 2008 reveal there are 205.9 million households in the country, of which 30 per cent (61.4 million) live in urban areas and the rest (144.5 million) in rural areas (for more details see Table 1.).

Table 1: Estimates of Indian Households and Population			
	Rural	Urban	All India
Households (million)	144.5	61.4	205.9
Population (million)	732	295	1,027
Household size	5.08	4.81	5.00
No. of earners per household	1.43	1.34	1.40
Source: The Max-NCAER India Financial Protection Survey, 2008			

Given that urban families are marginally smaller than rural ones, the share of India's urban population is slightly lower - at around 28.6 per cent. While the average family size in the country is five members, less than one per cent of Indian households are single-member ones and around 10 per cent have more than seven members. Since only 17 per cent of women work, the average number of workers per household is 1.4 (1.34 in urban areas and 1.43 in rural ones). And around 28 per cent of the country's population is engaged in a financially remunerative job of some sort. Indeed, 68.8 per cent of households have just a single earning member while 23.7 per cent have two earning members and 7.5 per cent have more than two earning members (for other details see Table 2).

Table 2: Average Household Size- (Urban & Rural)

States	Hhds	Individuals	Avg Hhds Size
All India	226	852	3.8
Andhra Pradesh	20	65	3.3
Assam	6	22	3.7
Bihar	17	64	3.8
Jharkhand	6	21	3.7
Chandigarh	0.2	1	3.4
Delhi	4	14	3.9
Goa	4.4	1	3.9
Gujarat	0	44	3.5
Haryana	12	19	3.8
Himachal Pradesh	5	5	3.9
Jammu & Kashmir	1.4	1	3.7
Karnataka	0	46	4.2
Kerala	12	28	3.7
Madhya Pradesh	8	49	3.6
Chhattisgarh	13	17	3.7
Maharashtra	5	86	3.5
Orissa	23	31	3.7
Punjab	9	22	3.3
Rajasthan	5	46	4.2
Tamil Nadu	11	57	4.2
Uttar Pradesh	17	130	3.4
Uttaranchal	30	7	4.4
West Bengal	2	68	3.9

Source: Indian Readership Survey, 2009.

2.2 Literacy

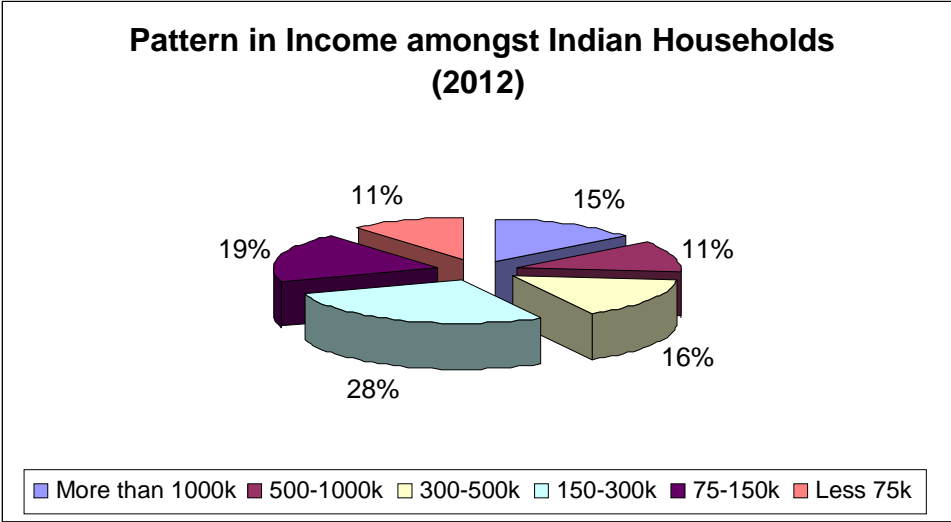
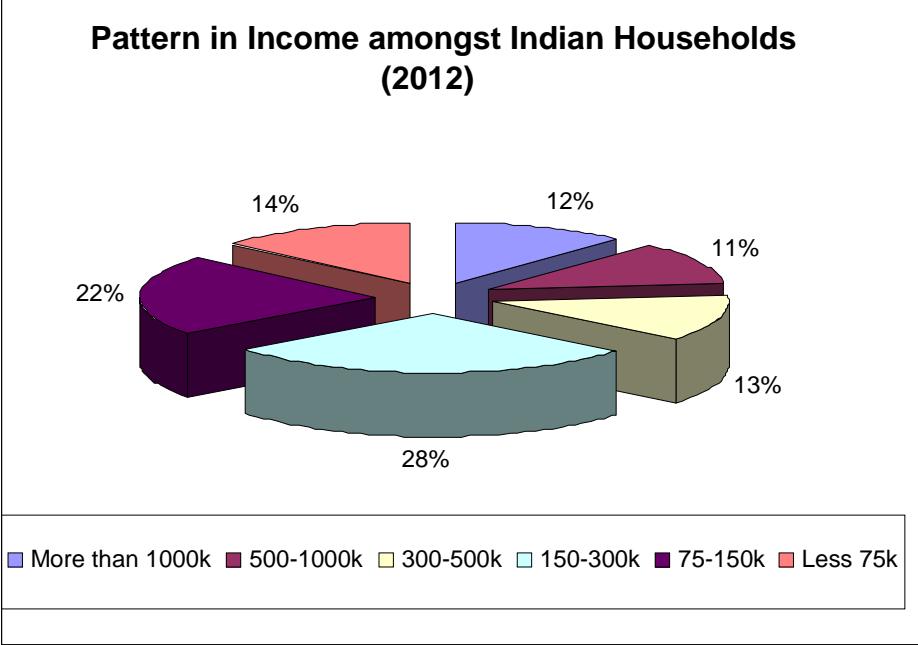
At the all-India level, households analysed on the parameter of highest literacy amongst their members, it was revealed that 19 per cent have members who have passed middle school (8th class), nearly a fourth (23 per cent) of households have at least one member who has completed high school (10th class), and 18 per cent have done higher secondary (12th class). At the all-India level, 17 per cent of all households have at least one graduate member it is 30 per cent for urban areas and 11 per cent for rural areas.

2.3 Income-expenditure profile

India has come a long way, particularly over the past decade. Its rapid growth has been driving rising incomes for its large population and significantly reducing poverty. India, however, still has some distance to go before its income and consumption levels reach world standards. The total size of the Indian market in 2010 at 16,896 billion Indian rupees (or \$370 billion) makes it slightly larger than South Korea. But South Korea has less than 5 percent of the population of India. On a per-capita basis, India is still a very much a developing country with consumption of \$334 per person, lagging behind countries such as Indonesia (\$557 per person) and China (\$542 per person). So, while there has been a great deal of excitement about India's recent growth and its potential as a consumer market with more than a billion people, one must be realistic about its size today. However, the present scenario is quite encouraging. Household incomes have grown by about Rs 580,000 crores during the two years to reach a level of Rs 3.61 million crores. However, dramatically different shifts have occurred in the higher and the lower income categories. Whereas the proportion of households earning less than Rs 75,000 pa has reduced by 2.6% and the proportion earning between Rs 75,000 and Rs 150,000 pa has reduced by 2.5%, the proportion earning over Rs 10 lakhs pa has increased by 2.7% and the proportion earning between Rs 3 and 10 lakhs per annum has increased by 3%. The three higher income categories have all seen an increase in proportion while all the three lower income categories have seen a decrease in proportion.. While the consumer market has grown by 19% during the interval, the key difference has been a decline in proportion spent on basic food (cereals & bread, pulses, sugar & gur, oils & oilseeds, fruits & vegetables, potato & other tubers, milk & milk products, meat, egg & fish, coffee, tea & cocoa, spices, other food, beverages, pan & other intoxicants, tobacco & its products) and the gains have been made in the category of miscellaneous goods and services which includes among others Hotels and restaurants, utilities, rent, medical expenses, recreation, personal transport and education. The expenditure on food has grown by just 5%

whereas the expenditure on the latter category has grown by as much as 29%, well above the average expenditure growth. In fact, every other category has declined in proportion, except the durables, which has remained stable (see Figure 1).

Figure 1: Changing Pattern in Income amongst Indian Households



Source: Calculated from Market Skyline of India 2011-12

2.4 Social trends

Social trends of a country have impact on retailing in a country. India is country that is vast geographically and diverse culturally. This has taken its toll on retailing with retailers

having to adapt to the local cultures 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.

In the same country prevalence of different societal class as depicted in the figure reveals that the Indian consumer is very different in terms the societal structure cut across the country. Traditionally the Indian women are expected to look after the household activities as a housewife. 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.

2.5 Income by occupation

Labourers constitute the largest segment of the population, heading a little over 31 per cent of the country's households; self-employed agriculturists are the next largest segment (30.3 per cent), salaried members account for a little over 18 per cent and the non-agricultural self-employed members account for 17.5 per cent of the country's households. The figures differ for rural and urban areas - while the salaried account for just 10.5 per cent of rural households, in urban areas they account for 36.9 percent.

3. Changing Trends in Consumption

With changing lifestyle, there has been a shift in the consumption habits from carbohydrate-based staples towards protein rich foods. The area under cultivation for cereals has stagnated over the past 40 years, with a negative growth rate of 0.07%, which explains the decline of its share in the consumption basket. Fruits, vegetables and meat-based products on the other hand have shown consistent growth thereby increasing their share in the basket. Rise in household incomes and affordability, aided by increasing urbanisation (28% of the total population was urban in 2009 as against 17% in 1951) has played a significant role in this shift in consumption. Personal consumption expenditure on food items has seen a decline. The report on India Shopping Trends 2008 by The Knowledge Company, Technopak, highlights the following shopping behaviour:

- Patronage of traditional formats is universal across product categories shopped for.
- Purchases from modern format outlets in the recent past has been high - significant proportions emerge for purchases made from supermarkets, hypermarkets, departmental stores and even the new pharmacy and wellness stores.
- Most shoppers have made purchases from multiple format types in the last one year.

With a large middle class, rapid increases in purchasing power and the greater availability of more and more consumer goods, the shift towards consumerism has gained momentum and companies are adopting aggressive advertising and marketing techniques. International brands already present in the market include Benetton, Lacoste, Levi Strauss, Crocodile, Dockers, Lee, Wrangler, Nike, Reebok, Adidas, Zegna, Marks & Spencer etc.

The Indian consumption patterns are also slowly converging with global norms. The Indian consumer is now spending more on consumer durables, apparel, entertainment, vacations and lifestyle related activities. According to industry estimate the festive season sales account for around one third of the total sales of Rs. 35,000 crore domestic consumer durables. The domestic consumer product markets have become intensely competitive both in

the durables and non-durables (FMCG) segments. In an environment where supply is no longer a constraint, consumers are demanding more and better products at much lower prices.

Table 3 explains the penetration of consumer durables in 2010.

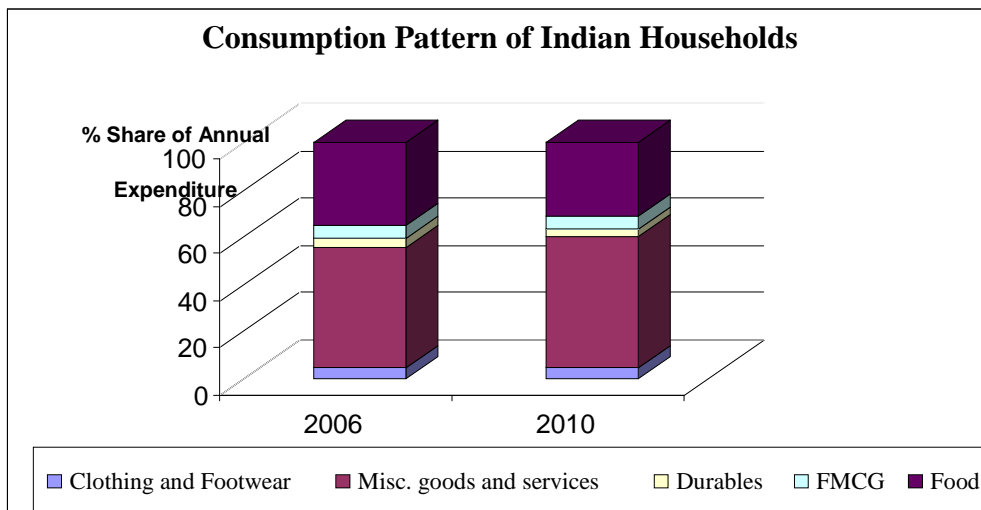
Table 3: Penetration of Consumer Durables

	All	Urban	Rural
All Households - Mn	223	67	156
	% Ownership		
Bicycle - Ownership	52	49	53
TV - Ownership	46	76	34
Music System (2 in 1 Walkman, Radio, CD, etc) - Ownership	22	29	19
Refrigerator - Ownership	13	32	5
Telephone (Landline / Terrestrial) / Wireless line - Ownership	12	21	7
Motor Cycles - Ownership	10	18	7
Air cooler - Ownership	7	17	3
DVD Player - Ownership	6	15	2
Washing Machines - Ownership	4	13	1
Still Camera - Ownership	3	9	1
Scooters - Ownership	3	8	1
Mopeds - Ownership	2	5	1
Computer at home - Ownership	2	5	0.3
Car / Van / Jeep (Own or Provided By Employer) - Owners	2	5	1
Air Conditioner - Ownership	1	3	0.0
Internet access at home - Through PC / TV - Ownership	1	3	0.1
Digital Camera - Ownership	1	2	0.1
Microwave Oven - Ownership	1	2	0.0
Vacuum Cleaner - Ownership	0.5	2	0.0
Printer - Ownership	0.3	1	0.1
Video Recorder / Player - Ownership	0.3	1	0.1
Cooking Range - Ownership	0.3	1	0.0
Video camera / Cam Corder - Ownership	0.2	0.5	0.03

Source: Indian Readership Survey, 2010.

If we take a closer look at the rural and urban consumption pattern we can observe from the following figure 2 that the consumption pattern of the rural and the urban households is converging.

Figure 2: Consumption Pattern of Indian Households



Source: Calculated from Market Skyline of India 2011-12.

Thus the major shift in the consumption pattern can be summarized as:

- People are spending proportionately less on food items and more on transportation, which is a combination of running our own vehicles as well as making use of transport services. We are travelling more and also incurring higher costs due to fuel price inflation, and better quality of civic transport.
- We are spending more on health and well being (included in the fastest growing category, miscellaneous goods and services). The cost of medical care has gone up, while there has been an increase in life expectancy, which in turn means, people live longer with greater need for medical care.
- We are also spending more on fuel and power at our homes. The cost of energy has gone up (and will continue to grow) along with greater consumption of electrical goods.

On the other hand, apart from low penetration, even the per capita consumption in most of the FMCG categories (including the high penetration categories) in India is low as compared to both the developed markets and other emerging economies. Though India has reduced poverty significantly during the last decade, there are still over 110 million

households who live on less than Rs 75,000 per annum. However, the good news is that this segment is shrinking dramatically in urban India and a slightly slower pace in rural India.

4. Strategic Change in the Indian Marketing Distribution System

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 concept of organized retail creeping in and 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, which is characterised by low cost of establishment, transportation and overheads. The issue of differential pricing and the growing dissatisfaction among the traditional retailers is being addressed by the manufacturers. The supplier-retailer relationship would come under severe pressure as each party would try to squeeze maximum margins out of the other.

With a large middle class, rapid increases in purchasing power and the greater availability of more and more consumer goods, the shift towards consumerism has gained momentum and companies are adopting aggressive advertising and marketing techniques. India is growing less conservative, but sensitivity to religious beliefs and customs is required. Advertising in only English is acceptable, but the use of Hindi or any regional language along with English is both desirable and effective in marketing consumer goods (see Table 5).

Table 4: India's Leading Magazines

Publications	General	IRS R2 2006	IRS R1 2009	% difference
		All Fig '000s		
India Today (Eng)	General Interest	3137	1955	-38
Readers Digest	General Interest	2046	1327	-35
Outlook	General Interest	1093	533	-51
The Week	General Interest	673	322	-52
Frontline	General Interest	321	118	-63
Time	General Interest	185	57	-69
Wisdom (Eng)	General Interest	807	455	-44
Sahara Time	General Interest	52		-100
Business Today	Business magazine	600	287	-52
Business India	Business magazine	428	222	-48
Business World	Business magazine	286	165	-42
Outlook Money	Business magazine	160	84	-48
Capital Market	Business magazine	77		-100
Dalal Street Inv. Journal	Business magazine	68		-100
Outlook Business	Business magazine		166	-
Business and Economy	Business magazine		82	-
Filmfare	Entertainment	1270	490	-61
Stardust (Eng)	Entertainment	879	388	-56
Cine Blitz	Entertainment	231	50	-78
Showtime	Entertainment	80		-100
Femina	Women	574	309	-46
Woman'S Era	Women	454	200	-56
Femina Girl	Women		103	-
Savvy	Women	112	26	-77

Source: Indian Readership Survey, 2010.

Due to the increased level of competition, both dealers and manufacturers have created business directories in which products and services are categorized and widely advertised. A wide variety of magazines also plays a pivotal role in advertising and marketing. Large boarding and neon-sign advertising are widely used. 'Doordarshan' is the national TV with many channels. Amongst the more popular channels are the Star TV, CNN, MTV, Discovery and BBC. There are several major national English-language newspapers and many weekly, fortnightly and monthly magazines. Prominent amongst these are The Times of India, Indian Express, Hindustan Times, The Hindu, Economic Times (newspapers) and Business Today and India Today (magazines). In most hotels and bookshops one can find most of the foreign newspapers and magazines (especially British and American).

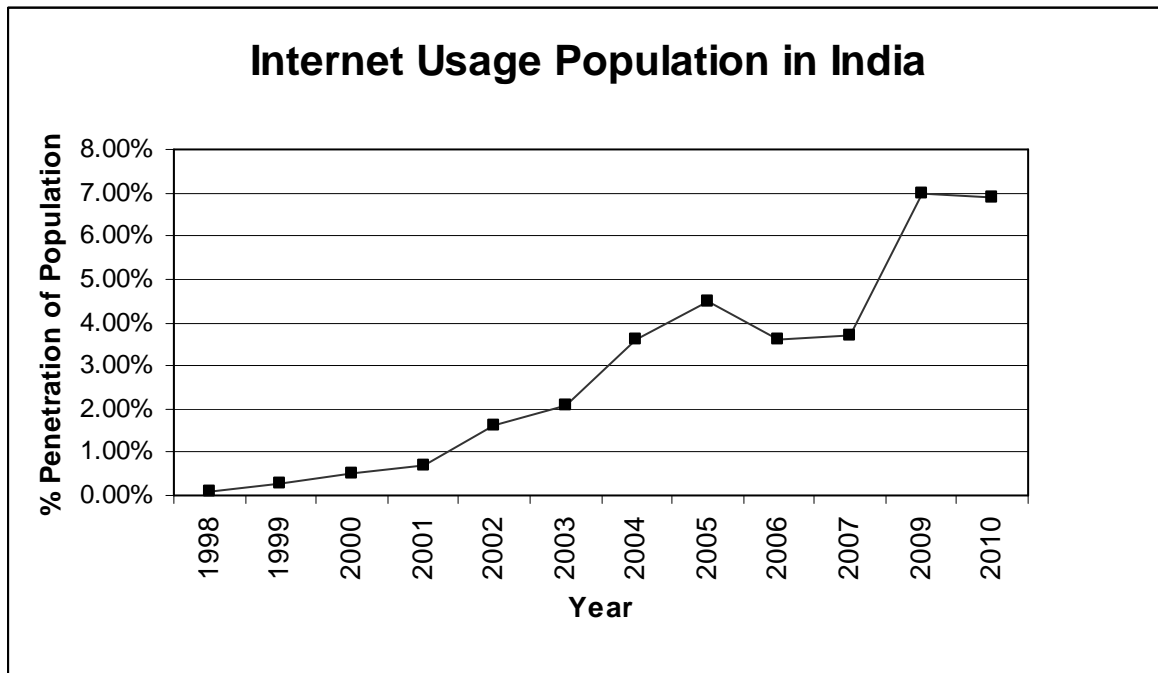
With increased purchasing power, promotional campaigns for consumer products should emphasize quality, price and durability. Most customers have a very positive perception of the quality of foreign made products and are willing to pay a premium for them.

4.1 Transformation in supply chain

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. For example the food supply chain in India is full of inefficiencies - a result of inadequate infrastructure, too many middlemen, complicated laws and an indifferent attitude. The entire supply chain framework has undergone a huge change with the farm and services emerging to ensure quality and timely supply of produce for the operations.

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.

Figure 3: Internet Usage Population in India



Source: Internet World Stats

5. Emergence of Indian Retail Sector

The Indian retail industry has experienced high growth rate over the last decade with a shift towards organized retailing formats. The industry is moving towards a modern concept of retailing.

The size of India's retail market was estimated to be at \$435 billion in 2010. Of this, \$414 billion (95 per cent of market) was traditional retail and \$21 billion (about 5 per cent of market) was organized retail.

India's retail market is expected to grow at 7 per cent over the next 10 years reaching a size of \$850 billion by 2020.

The US based global market consulting firm, A.T.Kearney, in its Global Retail Development Index (GRDI), 2011, has ranked India as the fourth most attractive nation for retail investment among 30 emerging markets.

Some of the dominant players in the Indian retail market are:

- Pantaloon Retail Ltd, a Future Group venture has more than 1000 stores across 71 cities in India.

- Shoppers Stop has 35 stores in 15 cities.

Some foreign major players are entering the Indian market in joint ventures with Indian companies.

- Carrefour which opened its first cash and carry store in India in New Delhi.
- Walmart has entered the Indian market in a joint venture with Bharti Retail
- Marks and Spencer have a joint venture with Reliance.

The Indian retail sector accounts for 22 per cent of India's GDP and generates 8 per cent employment. The cumulative FDI inflows in single brand retail traded during April 2000 to June 2011 stood at \$69.26 million.

Challenges

There a number of challenges being faced by the Indian retail sector. Some of which are:

- There is an acute shortage of skilled manpower due to a lack of courses specific to retail sector like merchandising, supply chain management.
- Lack of industry status also hinders the retail sector. Unorganised retail in India faces difficulty in the procurement of organized financing and fiscal incentives due to tis non-industry status.
- There is a lack of sophisticated retail planning when it comes to real estate. In most cities, it is difficult to find suitable properties in central locations for retail due to fragmented private holdings, infrequent auction of large government owned vacant plots and litigation disputes between owners.

Future

By 2015, more than 300 million shoppers are going to shop in organized retail chains.

The online retail segment is growing at an exponential rate of 35 per cent. It is expected to touch Rs7000 crores by 2015 up from Rs2000 crores in 2011. Flipkart and Amazon are the

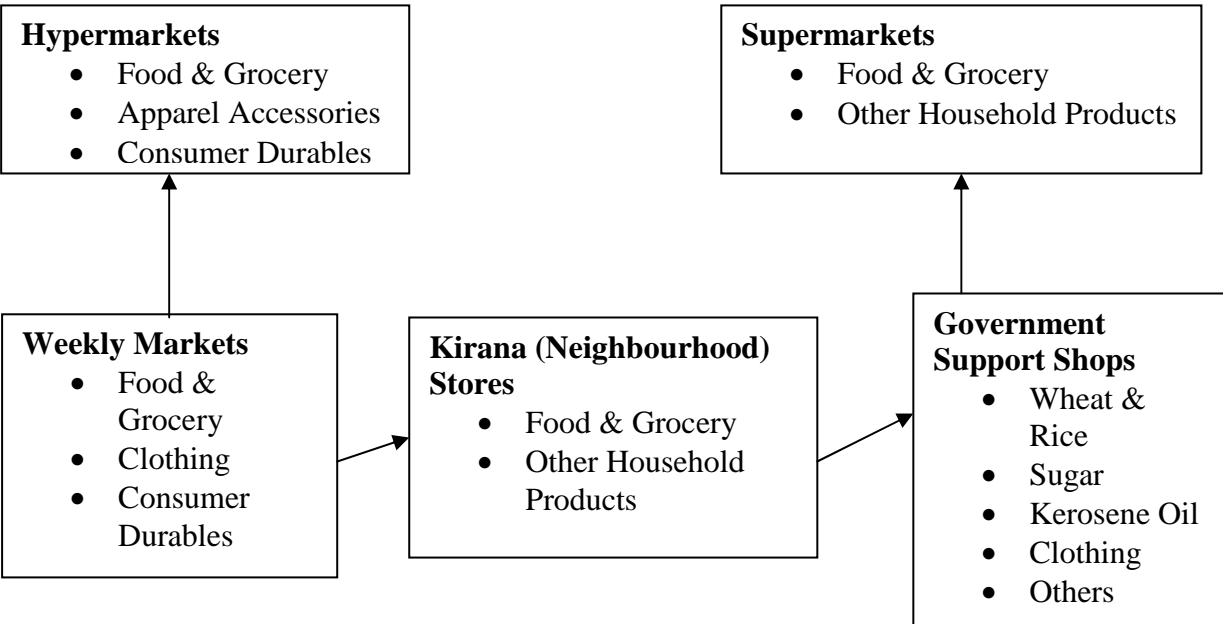
major players vying for market share in the online retail market with Jabong and Myntra staking claims focusing upon only the fashion segment.

5.2 Apparel

The apparel retail market in India is estimated at US\$19.15 billion. It comprises the sales of readymade garments in men's wear, women's wear and kids wear. The market size of the three segments is estimated at US\$7.92 billion, US\$6.6 billion, and US\$4.63 billion respectively. The establishment of theme shops and the advent of new kids apparel brands will also contribute to the growth of this category in India.

The FICCI-Ernst & Young 2007 report on 'Winning with Intelligent Supply Chains' says the retail sector in India is highly fragmented with over 12 million unorganised retailers across the country (see Figure 5). More than 80% of these outlets are small family businesses using household labour. With the entry of modern retailers over the last few years, the share of the organised market has been growing rapidly to reach 5% of the total market.

Figure 5: Indian Retail Landscape



China and Brazil, India's main emerging market peers, took about 10 to 15 years to reach the current levels of 20% and 38% respectively of organised retail from 5% when they began. India too is moving in the direction towards growth and maturity in the retail sector at a fast pace. The youth has been driving growth in the market. The power of youth today is evident in its large numbers, propensity to consume and in its ability to influence larger household decisions. Discussing the major factors/drivers for the growth of retail Market in India the first major factor which influences the growth is the Easy availability of credit at low interest rates has changed the mindset of the Indian consumer. Though penetration of credit cards is still at around 13 to 15 cards per 1,000 persons, consumers prefer using credit cards to carry out transactions. With nationalised and private banks offering credit cards with ease; penetration levels are expected to increase which will further increase retail transactions through this medium.

The driver for the Indian retail sector has been around 40 million households earning between US\$4,000 and US\$10,000 annually and comprises salaried employees and self-employed professionals. It is expected to grow to 65 million households by 2010 and play the role of a major growth driver for retailing of various product Retailing categories. Rural India will also benefit from the country's rapid economic growth and will see a significant increase in annual household incomes over this period.

6. Opportunities in the Growth: The Changing Trends and move towards Retail

The rise in the food and groceries retail segment is estimated at US\$152 billion; it accounts for over half the total retail market in India and is growing at 3.5% to 4% annually as per the FICCI-Ernst & Young 2011 report on Winning with Intelligent Supply Chains. The organised segment of the market, however, represents just around 1 % of the total market; i.e. the lowest penetration level amongst all major categories in the retail sector. This low penetration presents significant opportunity for the companies seeking to enter this retail sector. Thus, with a major share of the retail market and penetration rates of just over 1 %,

food & groceries is the ideal retail opportunity for organised players as India ranks amongst the leading food production and consumption centres of the world.

Food products are the single largest component of private consumption expenditure, and account for as much as 35% of the total spending. India is the leading producer of pulses and milk and also ranks among the top three producers of rice, wheat, groundnuts, tea, coffee, tobacco, spices, Sugar, and oilseeds in the world. The country is also a leading exporter of cereals and pulses. Agriculture exports account for about 14.2% of India's total exports. With annual production of around 149 million tonnes, India is the second largest producer of fruits and vegetables. The annual production of fruits is 48.36 million tonnes, while that of vegetables is around 101.43 million tonnes, accounting for 10% and 14% of the global production respectively. These large volumes of fruits and vegetables production, together with consistent high year-on-year growth, indicate the huge market opportunity for the food and grocery retailers. This opportunity, however, is more discernible in the urban markets that offer clear arbitrage benefits on procurement, than rural markets where margins are non-existent.

Milk and dairy products is another large consumption category in the Indian food and beverages basket, reinforcing India's position as the leader in milk production. This success can be attributed to various initiatives undertaken as a part of Operation Flood, which lay emphasis on organising milk producers into cooperatives; building infrastructure for milk procurement, processing and marketing; and providing financial, technical and management assistance to the producers. This category offers huge opportunities to the processing industry, with 35% of milk currently produced, undergoing some form of processing.

The shift in consumer expenditure due to a change in the lifestyle represents huge business opportunities for aggregators like ITC's e-choupal where they can not only procure basic food produce from farmers now but also act as suppliers and retailers for a range of non-food items that are witnessing an increasing demand in rural markets. Lifestyle changes

and multicultural shifts have also resulted in increasing adoption of alternate dietary habits across regions. Southern India, which has traditionally been a rice consumption and production belt, is seeing a steady rise in wheat consumption, the staple of northern India.

Food and groceries purchases from hypermarkets were much lower. However, they all had also purchased from the traditional format outlets, including mandis, the local vegetable market and street hawkers. This was interesting to note as the obstacle here was not lack of awareness or exposure to modern format outlets. The important point to note that evaluating a supermarket is more a requirement than a specific aspect on which a supermarket can differentiate itself. More important, discounts, promotions and loyalty points are vital to consumers. Clearly, there is tremendous potential in this market to develop differentiated offerings on the basis of relationship-based reward programmes and evolving patronage beyond mere convenience-led habituation.

7. Key Issues

Over the last fifty years the Indian market has emerged as one most significant market in terms of increase in purchasing power and a gradual shift towards more aggressive consumerism. The lack of infrastructure, proper banking facilities on one hand, and low literacy rate, low disposable income on the other hand are typically the unique features of the Indian market. The gaps are now being bridged and the Indian market is on the threshold of a boom. The investment in organised retail with the changing consumption patterns are evidences of growth and development in the Indian market. In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. Hence we may find more of regional players and it would take enormously long time before nation wide successful retail chains emerge. This is the main reason as to why the successful retail chains in the country today operate at regional segments only and are not aiming at nation wide presence, at least for the time being. To illustrate with examples, the RPG Group's Food World, Nilgiris, Margin Free, Giant and Subhiksha, all of which are more or less spread in

the Southern region; Sabka Bazaar has a presence only in and around Delhi; names such as Haiko and Radhakrishna Foodland are Mumbai-centric; while Adani is Ahmedabad-centric. India's overall retail sector is expected to rise to US\$ 833 billion by 2013 and to US\$ 1.3 trillion by 2018, at a compound annual growth rate (CAGR) of 10 per cent. Also, organised retail, which accounts for almost 5 per cent of the market, is expected to grow at a CAGR of 40 per cent from US\$ 20 billion in 2007 to US\$ 107 billion by 2013 (AT Kearney). India has emerged the third most attractive market destination for apparel retailers and one of the largest numbers of retail outlets in the world. Thus a foreign investor targeting the huge Indian market should have an eye on the following:

- Forward progress on reforms such as the reduction of the fiscal deficit, lowering of trade tariffs, further opening of markets to competition, easing of labor laws, financial system reform, and reducing internal barriers to trade.
- Increased investment in infrastructure and education which may continue to grow at 7.8 percent annually over the next two decades are critical to both the manufacturing and service sectors.
- Continued growth in exports and foreign investment driven more recently by strong IT/BPO sector growth. India's success in IT/BPO has given rise in the United States and Europe to protectionist sentiment targeted at the off-shoring industry. Protectionist actions could hurt Indian exports, dampening our income and consumption forecasts. India also need to continue to increase its attractiveness to FDI to provide capital as well as the skills and productivity gains that tend to come with FDI. While India is less dependent on exports and FDI than other Asian economies both will become increasingly important as India grows over the next two decades.
- The birth of the retail industry in India is an emerging trend of the changing consumer patterns of the Indians, which has facilitated the foreign investors to penetrate the Indian market.

- Prior to the economic liberalization in the 1990s, the economy of India was a seller's market in most instances. The market conditions are quite different now with more competition and dealers being able to choose from among many suppliers in most industries.
- Rising per capita income, increased literacy and rapid urbanisation have caused rapid growth and change in demand patterns. The rising aspiration levels, increase in spending power has led to a change in the consumption pattern.
- India is beginning to see the first signs of a long-term consumption boom as a result of rising disposable incomes, higher life expectancy, rapid urbanisation and changing lifestyles.
- The services sector GDP has recorded a growth of 9.7 per cent even as agriculture and industry recorded steep decline in growth.
- There are large differences in income, expenditure and savings patterns between rural and urban India. Urban households earn around 85 per cent more than rural ones, spend three-fourths more and, as a result, save nearly double that of rural households. This has led to a wide range of dispersion in the taste and preferences of the consumers.
- There are 205.9 million households in the country, of which 30 per cent (61.4 million) live in urban areas and the rest (144.5 million) in rural areas. Given that urban families are marginally smaller than rural ones, the share of India's urban population is slightly lower - at around 28.6 per cent. While the average family size in the country is five members, less than one per cent of Indian households are single-member ones and around 10 per cent have more than seven members. Thus its clear mentions the family size and the demand emanating from these classes of consumers.

- Indian audience for advertising are fragmented by so many official languages and television channels along with print publications that it requires careful media planning for advertising campaigns.
- At the all-India level, 17 per cent of all households have at least one graduate member it is 30 per cent for urban areas and 11 per cent for rural areas, once again revealing the wide spectrum of the consumers.
- The three higher income categories have all seen an increase in proportion while all the three lower income categories have seen a decrease in proportion. There have been very significant shifts in consumer spending patterns.
- 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.
- The Indian consumption patterns are also slowly converging with global norms. The Indian consumer is now spending more on consumer durables, apparel, entertainment, vacations and lifestyle related activities.
- However along 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 which is characterised by low cost of establishment, transportation and overheads.
- The retail sector in India is estimated at US\$280 billion. Organised retail, estimated at US\$14 billion, accounts for a meagre 5% of the total market in India.
- The Indian government does not allow foreign direct investment in retailing in India, other than for single-brand retailing, in which foreign direct investment (FDI) is allowed up to a maximum of 51%, subject to government approval.

This makes the point very clear that the strategy among most existing retail chains of various formats is to completely saturate the markets where they are already established players and then move on to virtually untouched areas where the challenge of sourcing resources and extending their supply chain model to best suit the size and expanse of the market would be a challenging task. Industry topography in India is such that spreading presence across cities is a tough call. Thus organised retailing chains going national requires significant investments and has to be intertwined with complex but proper supply chain and logistics issues to enhance the sector in the country.

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