

# Retailing in India in the 21st Century: Issues, Challenges and Prospects

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## Abstract

*India is the most attractive retail market today with abundance of opportunities. Retail has witnessed an immense growth in the last few years. In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn help the Indian Retail Industry to grow faster. There is no doubt that the Indian retail scene is booming. The key factors responsible for the retail boom have been the change in consumer profile and demographics, increase in the number of international brands available in the Indian market. Today the organized players have attacked every retail category. Indian retail industry though enjoys many unique features is still in its nascent stage. Though large number of business houses is coming forward to open up retail chains they will have to face certain difficulties in bringing in excellence in their operations. Indian retail industry/sector is facing different challenges at different levels and functional areas. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market having immense potential in terms of opportunities. The issues and challenges facing the Indian organized retail sector are stopping the Indian retail industry from reaching up to its full potential. However, in the recent past, Indian retail industry has witnessed several changes due to increased per-capita income, changing life style, increased product*

*availability, a large young working population with median age of below 30 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the service sector. This paper focused on major players in retail industry emerging challenge of retail sector in India, future prospects of retail sector in India and findings of the study.*

**Keywords:** Retailing, Customer Behaviour, Organized Sector, Unorganized Sector, Major Players.

## Introduction

India is a country with huge population, high heterogeneity and diverse needs. The Indian Retail Industry is gradually inching its way towards becoming the next boom industry. The post liberalisation is seen retail emerge as a sunrise sector. Liberalisation policy in retail sector has made India an attractive destination for multinational retailers. During the last couple of years, the growth pattern in organised retailing and in the consumption made by the Indian population share shows an upward trend indicating more potential and opportunities in Indian retail industry. The Indian retail industry is going under a transition phase from unorganised to organised retail. The organised retailing is developing fast as it is being complemented by the shopping mall culture of Urban India. Retailing is one of the pillars of the economy in India.

## Statement of the Problem

In this competitive world we can see many problems in marketing of any product or service. Some problems can be solved but so many problems may not be solved. Retailers, who are the connecting link between the producers and consumers were faced many problems to market of their product from various and many causes behind this. The Retail Industry in India has come forth as one of the most dynamic fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The industry is facing severe shortage of talented professionals, especially at the middle management level. So, the research made

a sincere attempt to identify the issues, problems and prospects faced by the retailers in India, during the course of starting and managing their enterprise.

### **Objectives of the Study**

Present paper aims at giving an insight to the structure and the current situation in the retail industry in India, the paper focuses on the following objectives:

- i) The study is to explore major and minor challenges faced by the Indian retail industry.
- ii) To study the opportunity and future prospects of retail business.
- iii) To offer suggestions on the basis of the findings of study.

### **Scope of the Study:**

The scope of the retail market is very vast. The growth of scopes in the Indian retail market is mainly due to the change in the consumer behaviour. For the new generation have preference towards luxury commodities which has been due to the strong increase in income, changing life style, demographic patterns which are favourable. The scope for growth in the Indian retail market is mainly in the mega cities; cities and towns.

### **Research Gap**

Retail has a tremendous impact on the economy. It involves high annual sales and employment. Retailer provide vital link between producers in ultimate consumers. Research gaps in retailing in India are areas that require further investigation and study. Some of the notable gaps include –

- Limited research on sustainable retail practices.
- Need for more research on retail employee training and development.
- Lack of studies on consumer behaviour.
- Gaps in understanding the impact of e-commerce.
- Insufficient understanding of organised retailing.

Addressing these research gaps can provide valuable insights for retailers, policy makers, and researchers, ultimately contributing to the growth and development of the retail sector in India.

### **Limitations of the Study:**

While going through designing the research paper emphasis is given to collect proper and accurate data on subject matter; however in spite of all efforts there ever been some limitations in this study –

- Lack of expert knowledge about online system for collection of up-to-date information.
- Competition from informal retail sector like street vendors, unorganised retailers, etc. poses significant competition to organised retailers.
- India's retail market is highly fragmented with a large number of small, independent retailers.
- The research based on secondary data collected from books, journals, magazines, articles, leading newspapers, internet etc. Thus, this report based on the relevance of such data and judgement capabilities of researcher's.

### **Methodology of the Study:**

The study is designed as a descriptive and analytical one. Considerable data mainly depends upon secondary sources. The secondary data collected from the various standard text book, research articles, leading newspapers, magazines, journals, and internet etc. These have constituted a supportive literature for the purpose of carrying out the research work. Conducting surveys among consumers to gather data on shopping habits, preferences and behaviour.

### **Conceptual Framework**

- i. Retailing:* Retailing is the process of selling goods or services directly to the end-consumer for personal or household use. It involves all activities related to the sale of products to the final customer, including-direct sales; end-customer focus and product availability.

- ii. Retail marketing:* It refers to the promotional and strategic activities undertaken by retailers to attract and retain customers, drive sales, and build brand loyalty
- iii. Retail trade:* Retail trade may be defined as “A trade which consists of selling to ultimate consumers of a variety of products in small lots.
- iv. Retail store:* Retail store is a business enterprise whose primary source of selling comes from retailing.
- v. Retail industry:* Retail industry comprises of all those business which practice the act of selling goods and services to the final consumers. Retail industry may be divided into organised and unorganised.
- vi. Customer:* A Customer is an individual or organization that purchase a product or service from business or retailer.
- vii. Consumer Behaviour:* Consumer behaviour refers to the study of how individuals, groups, and organizations select, purchase, use and dispose of products, services and ideas.

### **Evolution and Emerging Trends of Retail Sector in India**

Barter system is considered as the oldest form of doing business in India. Then it is Haats, Mandies and Meals are the formats that have been a part of India landscape in the medieval period. Retailing in India at this stage was completely unorganised and it thrived as separate entities operated by small and medium entrepreneurs in their own territories. In India retail industry is going under a transition phase from unorganised to organised retail. The evolution was being witnessed at various levels and the people of the nation were learning to play different roles as businessmen and consumers. Traditionally retailing in Indian started as the emergence of the neighbourhood ‘Kirana’ stores catering to the convenience of the consumers. During the period 1980’s experience slow change as India began to open up economy. The transformation of India retail sector started with the implementation of new economic policy in 1991. Liberalisation, privatization and globalization have exposed the Indian consumer to gamut of products and brands.

The world of today has turned into a global village; consumption having huge impact on the contemporary retail business, and technology advancement has created opportunities as well as several challenges for the retail industry. Modern retailing has entered into the retail market in India as it is observed in the form of bustling shopping centre, multi-storey malls and the huge complexes that offer shopping, entertainment and food all under one roof.

### **Evolution of Retail in India**

- Weekly Markets
- Village fairs
- Convenience stores
- Mom and Pop
- Kiranas
- PDS outlets
- Khadi stores
- Co-operatives
- Exclusive Brand outlets
- Hyper/Super Markets
- Departmental Stores
- Shopping Malls

### **Indian Retail Market**

#### **Organised retail market and its major players Unorganised retail market**

- i) Super market (Nanz, Soproite)
- ii) Hyper Market (Big Bazar, Vishal Mega Mart, Metro Bazar)
- iii) Factory Outlets (Reebok, Adidas, Levis, Nike)
- iv) Show rooms (Reebok, Nike, Adidas)
- v) Departmental Stores (Pantaloons, Shoppers Stop)
- vi) Discount Stores (Spencer's, Reliance Fresh, Bombay dyeing)

vii) E-Commerce (Flipkart, Amazon)

- i) Local Markets
- ii) Hawkers
- iii) Street vendors.
- iv) Convenience Stores
- v) Paan Shops
- vi) Grocery Shops

Indian retail sector is wearing new clothes and with a three year compounded annual growth rate of 46-64%, retail is the fastest growing sector in the Indian economy. The sector is the second largest employer after agriculture, employing more than 35 million people with wholesale trade generating an additional employment to 5.5 million crores. The enormous growth of retail industry has created huge demand for real estate. Indian retail market is expected to be worth about US \$ 410 billion, with 5% of sales through organised retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly upto US \$ 535 billion in 2013, with 10% coming from organised retail, reflecting a fast growing middle class, demanding higher quality shopping environments and stronger brands, according to the report “Expanding Opportunities for Global Retailers”, released by A.T. Kearney. Emerging Opportunities of Retail sector in India like – Retail Infrastructure, Rural Retailing, Luxury Market, Online Retail, Private Labels, Sourcing base potential consumer segments like rural consumers, working population, youth middle income households, growing number of millionaires etc. Major changes are happening across the country in the terms of consumer’s tastes and preferences. Now consumer’s spending at organised retail formats increasing day by day due to availability and variety of brands, products, assortment, shopping atmosphere, sales personnel responsiveness, reasonable pricing, in-store convenience, various schemes and promotions and many more attributed. Today consumer’s buying more during their visit at retail stores at little spending of time. It is a huge reflection of increasing purchasing power and busy life style. Large Indian players like Reliance, Tata Group, Ambanis, Birla, ITC RPG Group and many others are making significant investments in

this sector leading to emergence of big retailers who can bargain with suppliers to reap economies of scale.

### **Issues and Emerging Challenges Of Retail Sector In India:**

Indian retail industry though enjoys many unique features is still in its nascent stage. Indian retail sector is facing different challenges at different levels and functional areas. Some of the challenges that they are facing like:

- i. **Lack of Retail Space** – With real estate prices escalating due to increase in demand from the Indian organised retail sector, is posing a challenge to its growth. Indian retailers have to shell out more for retail space which is affecting their overall profitability.
- ii. **Lack of Quality Location** – Location is the most important ingredient for any business that relies on customers, and is typically the prime consideration in a customers store choice. It is the decision regarding ‘Right place, Right choice”, decisions related with locations are harder to change because retailers have to either make sustainable investments to buy and develop real estate or commit to long term lease with developers.
- iii. **Deficiency of Trained Manpower** – The Indian retailers have difficulty in findings trained person and they also have to pay more in order to retain them. This again brings down the Indian retailers profit levels.
- iv. **Competition from unorganised sector** – Traditionally retailing is established in India for many centuries. Consumer familiarity that goes from generation to generation is the biggest advantage for the traditional retailing sector. Competition from the unorganised real sector is the major challenge for the organised retail outlets.
- v. **Understanding customer** – These days it is very difficult to understand the customer behaviour. So many factors plays an important role in affecting the customer behaviour and loyalty such as – product quality, service quality, customer satisfaction, promotions, offers provided by other players in the market. To attain the customer loyalty so much of efforts

are required to understand the customer behaviour and regular market survey is required.

- vi. **Ever-increasing Customer Demand** – Ever increasing demand of the customers is also a challenge to the retail outlets. These days because of globalisation awareness among the customers is increasing. So, customers psychology is changing and becoming more demanding. They want to pay less for more and more. Because of high operating cost it is very difficult to meet the customer demand. So this is also a great challenge for the retail outlets of India.
- vii. **Price war** – There is price war between different retail organizations. Every organisation is trying to provide goods at low cost and offers various lucrative promotional schemes. In such situations, it is difficult to attain customer loyalty and companies keep marginal profit to provide the goods at competitive prices.
- viii. **Online Selling Companies** – These days so many online marketing companies are coming up. These companies are providing goods to the customer at their door step and at lesser prices when compared with retail outlets.
- ix. **Mall Management** – Mall management is going to be a major challenge for the retail industry. The Indian Retail Market lacks designated mall management firms.
- x. **Cultural and Regional Disparities** – Cultural and Regional differences in India are the biggest challenges in front of retailers. This factor deters the retailers in India from adopting a single retail format.
- xi. **Poor supply chain infrastructure** – Lack of storage and transport logistics often leading to huge wastage.
- xii. **Bureaucratic and Legal Hurdles** – Multiple and complex taxation system, stringent FDI regulations.
- xiii. **Lack of industry status** – Due to the absence of ‘industry status’, organized retail in India faces difficulties in procurement of organized financing and fiscal incentives. The Government should grant the much needed ‘industry status’ to the sector so that the sops that come with it helps promote both big and small retailers.

xiv. **Entry of Foreign Players** – The Indian Government has allowed 51% Foreign Direct Investment (FDI) in the India's retail sector to one brand shops only. This has made the entry of global retail giants to organized retail sector in India is difficult. This is a challenge being faced by the Indian organized retail sector.

### **Future Prospects of Organised Retail Sector in India**

With an estimated population of 1.41 billion, India is the world's most populous country and represent 17.33 percent of the world's population, which means one out of six people on this planet lives in India. The Indian population is witnessing a significant change in its demographics. Retail industry in India is greatly fragmented comparing to the developed and other developing countries. This presents enormous prospective for the structured retail industry to flourish throughout the country, as the market for the final product is huge. Retail industry is largely led by private companies. The distribution for fasts moving consumer products includes many layers like carrying and forwarding agencies, distributors, wholesalers, stockist and retailers. The Indian luxury consumer landscape is experiencing strong evolutionary under currents that are redefining the consumer profile and the way luxury players operate in the space. Almost every major Indian business house are either getting into the retail space or are consolidating and expanding their presence in the retail space at a feverish speed. The Indian retailing sector is at a rising point where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth leap. According to ASSOCHAM, the total retail market is expected to grow by 20% annually and is one of the fastest growing sectors in India.

The factors contributing for retail boom in India are –

- Growing disposable income of Indian consumers.
- Favourable demographics
- Increased population of working women.
- Rising aspirations for value added goods sales.
- Increase in younger generation.
- Increase in expenditure for luxury items.

- Rural markets are also emerging as a huge opportunity for retailers, which are reflected in the share of the rural market across most categories of consumption.

- According to experts, the retail industry in India, will be a major employment generator in the future.

Following factors also support for better retail prospects in India –

- India has the potential to be the third largest economy in terms of GDP in coming years.

- The Indian Government is taking major initiatives to aid growth in the retail sector.

- Indians travel abroad on work and experience the life style, products and services available there. This has created the demand for these products in India as well.

- “Quality of Life” is the current buzzword with the Indian consumer today and the aspiration driven demand for products and goods is on the rise.

- Mall growth is being seen as a clear indicator of the economic prosperity in India. The number of malls in the country has increased at a fast space.

- Excellent investment opportunities in Indian retail sector and in all allied sectors.

- Many foreign investors are ready to invest in Indian retail markets.

- Opening of FDI in retail sector. As a result more and more international malls are coming up.

- Liberalisation, privatisation and globalization have exposed the Indian consumer to a gamut of products and brands.

The retail sectors are found to be rising in India at a remarkable speed with the years and this has brought a revolutionary change in the shopping attitude of the Indian consumers. The growth of Retail sectors in India is facilitated by certain factors like –

- Effect of Globalization

- Change in taste and attitude of the Indians

- Rise in upcoming business sectors like IT and Engineering firms.

- Existing Indian middle classes with an increased purchasing power.
- Today consumer's buying more during their visits at retail stores at little spending of time. It's a huge reflection of increasing purchasing power and busy life style.

### **Findings of the Study**

- i. **Organised and Unorganised sector** – The Indian retail industry is divided into organised and unorganised sector. The organised retail sector consists of licensed retailers who operate modern retail formats, such as – super markets, departmental stores and online retailers. On the other hand, the unorganised retail sector consists of un-licensed, small-scale retailers who operate traditional retail formats, such as street vendors, kirana stores and small shops.
- ii. **Cultural diversity** – India's size and socio-economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging.
- iii. **Emergence of middle class** – The middle class is considered to be a major potential customer group. The emergence of the middle class will certainly push up demand for branded clothes, entertainments, spending a luxury goods etc.
- iv. **Time consuming** – Consumers like to touch and feel the product before purchasing, so it's a major driver of evolving self-service format of retail. One consumer may represent different shopper at different point of time. Today consumers buy more during their visit at retail stores at little spending of time.
- v. **Effect of Liberalisation Policy** – The Indian economy was opened through economic reforms in 1991 and since then, the country has been seen growing size of the markets including capital and commodity market, the emergence of new industries with global competitiveness, entry of global corporate, institutional reforms, reforms through policies and corporate governance. Growing urbanisation of FDI policy in the past decade has been one of the key factors for

transforming India from a closed economy into one of the favourite destination for foreign investment.

- vi. **Creating jobs** – Retailing is one of the biggest sectors and it is witnessing revolution in India. India's retail market is expected to grow tremendously next few years. Indian retail industry is the second largest sector after the agriculture which provides employment opportunities.
- vii. **Dominated by Unorganised retail sector** – Retail in the country has been dominated by millions of unorganised retailers who have used proximity and home delivery as their operating ideal to cater to the Indian consumer that has become accustomed to this convenience. Indian retail is still dominated by unorganised sector and also it has got shape the mentality of the Indian consumer in shape by it.
- viii. **Shortage of trained manpower** – Trained manpower shortage is a challenge facing the organised retail sector in India. The Indian retailers have difficulty in findings trained person and also have to pay more in order to retain them. These again bring down the Indian retailers profit levels.
- ix. **Multi-storied malls** – Modern retail has entered India is seen in sprawling shopping centre, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof.

## **Conclusion**

Retail sector is one of the dynamic sectors and its boom has the potential to absorb a large number of unemployed youth. The growth of retail sector is driven by higher disposable income of middle class consumers due to employment in MNC's; increasing number of working women, high brand consciousness, and change in consumption pattern with highest aspiration levels allowing them to spend more on new products, brand and their patronising behaviour. Most of the organised retailers in India are harping on quality, service, convenience, satisfaction and assured benefits to lure shoppers into the store. To accelerate the growth of organised retail sector, retailers need to improve infrastructure, strengthen supply chain and devise strategies according to customer preferences. So, retailer should prepare marketing plans

that include decision on target market, product assortment and procurement, services and store atmosphere, prime promotion and proper placement of product inside the retail shop. The retail sector needs to better understand the Indian customers and their behaviours. Our conclusion is that consumer is the focus of retail business and the retailers should serve the consumer better, faster, and at less cost.

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