

Potential Indian Retail Market – Opportunity to International Players

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Abstract: *The retail market is the largest sector in India, comprised in organized and unorganized sector. Organized retailing refers to trading activities undertaken by licensed retailers, whereas unorganized retailing refers to the traditional format like Kirana shops, hawkers, Panpatti, etc. It accounts for 95% . India has approximately 222 million households, with more than 30% of the population living in 5,000 cities and towns. (World Population Prospects, 2010, UN) Food and grocery with 60 percent forms a lion's share of Indian household consumption, followed by clothing and fashion, which is 20% of the total, spends. The consumer market, was US\$ 220 bn. in 2005-06 which doubled (US\$ 425 bn) in 2010-11. India is among the world's youngest nations with a median age of 25 years. In 2025, more than 55% of the population of India would be of working age. (India Economy and Trends August 2011). This is indicating a huge potential market opportunity in India. This paper investigates the opportunities in the Indian retail marketing. The trend of working population to non working population, life style, consumer habits and consumer goods market are increased during the study period. This will increase the purchasing capacity in the country, providing further buoyancy to the retail sector. It can be conclude that the retail market in India today remains largely an untapped market. With increasing income, consumption, the Indian retail market attracts international players. Thus Indian market is high potential to attract the international market players.*

Key word: *Indian economy, GDP, Retail market, FDI, International players*

I. INTRODUCTION:

The retail market is the largest sector in India, comprised in organized and unorganized sector. Organized retailing refers to trading activities undertaken by licensed retailers, whereas unorganized retailing refers to the traditional format like Kirana shops, hawkers, Panpatti, etc. It accounts for 95% . India has approximately 222 million households, with more than 30% of the population living in 5,000 cities and towns. (World Population Prospects, 2010, UN) Food and grocery with 60 percent forms a lion's share of Indian household consumption, followed by clothing and fashion, which is 20% of the total, spends. The consumer market, was US\$ 220 bn. in 2005-06 which doubled (US\$ 425 bn) in 2010-11. India is among the world's youngest nations with a median age of 25 years. In 2025, more than 55% of the population of India would be of working age. (India Economy and Trends August 2011). This is indicating a huge potential market opportunity in India.

Significance of the Study:

Share of Indian retail was \$ 210 bn. in 2005, \$ 243 bn. in 2009, and \$ 246 bn. in 2009, which expected twice i.e. \$ 452 bn. in 2015. Increase in disposable income of consumers, consuming desire, low share of organized retailing etc. are the reasons of growth of retail marketing in India. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Accessories, Food, and even Jewellery, are slowly becoming lifestyle products. Retailers are taking benefit of this growth and accordingly are aiming to expand. Indian retail is expanding at a fast pace. Thus India is being seen as most attractive market by retail investors from all over the world.

Review of the Study:

In 1991 Indian economy opened FDI up to 51% allowed under the automatic route in select priority sectors. Then in 1997 – FDI up to 100 per cent allowed under Cash and Carry (wholesale). Next step was FDI up to 51% allowed with prior Government approval in 'Single Brand Retail' in 2006. Government mulled over the idea of allowing 100 per cent FDI in single-brand retail and 50% in multi-brand retail in 2008 and recently in 2011, Government considering allowing FDI in multi-brand retailing. (India-Economy and Trends August 2011)

INC Research (2011)- stated that the size of India's middle class households with an annual income of at least US\$4,000 increased from 13.8 million households in 2001-02 to 46.7 million households in 2009-10.

Oxford Analytical Daily Brief (2011) – shows the domestic demand in India could grow at a compound rate of 9.2% a year between 2010 and 2030.

Malyadri & Rao (2011) – concluded that there is a great potential that retail may offer employment opportunities to millions living in small town and cities.

Mitra Amit (2011), has mentioned that the huge size of the domestic market, strong growth potential, availability of skilled manpower and relatively stable legal framework are the key strengths of the Indian market.

Ernst and Young's (2011) in the survey, found that the number of FDI projects increased by 7% and the number of jobs created by FDI increased by 4% annually between 2003 and 2010,

Krearny (2003) – found that India is the least competitive as well as least saturated of all major global market.

Statement of Problem of the Study:

The statement of the problem of study is defined by author as “Can Indian retail market attracts the international players?” This paper attempts to provide an overview of the changing pattern of retail marketing over the period 1991-2010. The researcher analyzed Population, Consumer habits, the share of global retail market to India's total retail market and GDP etc. during the period 2001-2010. This study also investigates the opportunities of retail marketing to international retailers.

Objectives of Study:

The main objective of this paper is ‘to examine the opportunities for international players in the Indian retail market’.

Methodology and Techniques:

The present study based on secondary data. Simple statistical techniques are used to analyze the data.

Urban population and Retail Opportunity in India:

The trends of urbanization have been increasing since 1951 in India. The percentage of growth of urban population in 1951 was 17 per cent which became 25.7 per cent in 1991 at the time of globalization. And from 1991 to 2011 (after globalization) it has increased from 25.7 per cent to 31.2 per cent total population. This trend of urbanization marks an increased growth in consumption and spending which is potential opportunity to the retail market in India.

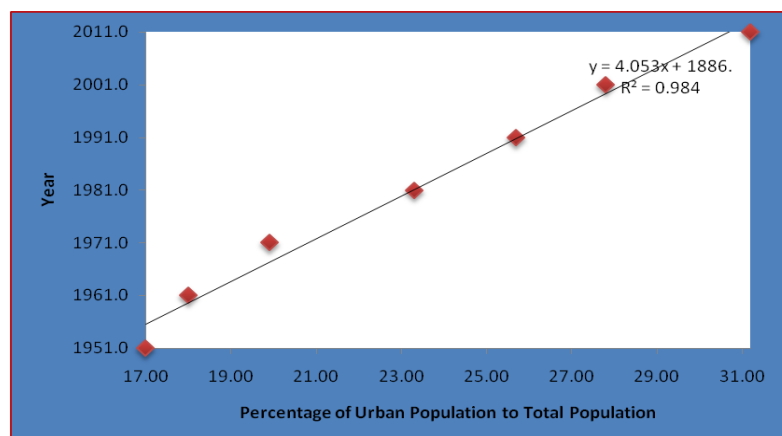


Figure – 1 : Trends of Percentage of Urban Population

The trend of working population to non working population

India is passing through a phase of unprecedented demographic changes. These demographic changes are likely to contribute to a substantially increased labour force in the country. The Census projection report shows that the proportion of working age population between 15 and 59 years is likely to increase from approximately 58 per cent in 2001 to more than 64 per cent by 2021. In absolute numbers, there will be approximately 63.5 million new entrants to the working age group between 2011 and 2016. Further, it is important to note that the bulk of this increase is likely to take place in the relatively younger age group of 20-35 years. Such a trend would make India one of the youngest nations in the world.

Change in Consumer Habits :

Through the 1990s, India introduced widespread free market reforms, including some related to retail. Between 2000 to 2010, consumers in select Indian cities have gradually begun to experience the quality, choice, convenience and benefits of organized retail industry. The following table clearly shows that the rural area is witnessing widespread changes in the shopper market. Rural market has outpaced India's urban market in demand for durable and non durable goods.

Table - 1
Rural Demand for Consumer Durables (Percentage of all India)

Consumer Durables	1995-96	2001-02	2009-10
Scooters	33.1	39.4	39.9
Motorcycles	47.3	39.8	48.3
Mopeds	52.7	58.2	57.7
Cars/ Jeeps	2.1	8.0	10.9
Fans	50.0	56.9	56.7
Low Cost items	58.1	60.1	61.3

Source- The Great Indian Market, Result from NCAER's Market Information Survey of Households, August 9, 2005

Consumer habits

Table -2
Per capita Household Consumption Expenditure

(Rs. per month)

	1991	2008
Rural	243.5	763
Urban	370.3	1464

The share Retail market after Globalization:.

The retail industry in India is largely unorganized and predominantly consists of small, independent, owner managed shops consisting of the local *kirana* shops, owner-manned general stores, chemists, footwear shops, apparel shops, *paan and beedi* shops, hand-cart hawkers, pavement vendors, etc. which together make up the so-called 'unorganized retail' or traditional retail. The last 5-7 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Still, the overall share of organized retailing in total retail business has remained low.

Table - 3
Growth of Organized Retail Trade over Total Retail

Year	Total Retail in Billion Rs.	Organized Retail in Billion Rs.	Percentage to Total
2003-04	10591	350	3.30
2004-05	11308	408	3.60
2005-06	12023	479	3.98
2006-07	14574	598	4.10
2007-08	16206	715	4.40
2008-09	18150	854	4.70
2009-10	20328	1020	5.07

Source- KSA Technopak Analysis

From the above table it can be conclude that organized retail trade was 3.30 per cent in 2003-04 which became 5.07 per cent of total retail trade in 2010, is likely to grow and contribute about 20 percent of total retail business by 2020. Thus retail sector in India is emerging as one of the largest sectors in the economy The total market size is likely to touch USD450 billion in 2012. , thereby marking a CAGR of 5.9 per cent since 1998.

The share of FDI in the India retail market after Globalization:

In 1997 Foreign Direct Investment (FDI) allowed in cash and carry wholesale. Then permission was granted by government in 2006. Indian retail attracted about \$1.8 billion in foreign direct investment during 2000-10, representing a very small 1.5% of total investment flow into India. Single brand retailing attracted 94 proposals between 2006 and 2010, of which 57 were approved and implemented. For a country of 1.2 billion people, this is a very small number. Some claim one of the primary restraints inhibiting better participation was that India required single brand retailers to limit their ownership in Indian outlets to 51%. China in contrast allows 100% ownership by foreign companies in both single brand and multi-brand retail presence. A number of merger and acquisitions have begun in Indian retail market. PWC estimates the multi-brand retail market to grow to \$220 billion by 2020

Table - 4
FDI Equity Flow during after globalization

Year	Amount of FDI Inflows In US\$ Million	%age growth over previous year (in terms of US \$)
1991-2000	14485	-
2000-01	2463	-
2001-02	4065	(+) 65 %
2002-03	2705	(-) 33 %
2003-04	2188	(-) 19 %
2004-05	3219	(+) 47 %
2005-06	5540	(+) 72 %
2006-07	12492	(+)125 %
2007-08	24575	(+) 97 %
2008-09	27330	(+) 28 %
2009-10	25834	(-) 05 %
2010-11	19427	(-) 25 %
2011-12	26192	(+) 34.66

*Source –Department of Industrial Policy and promotion GOI
 Report of inflows by RBI in their monthly report to DIPP & monthly RBI bulletin.*

The above table shows that cumulative FDI inflows received during the post liberalization period i.e. 1991-2011 were to the tune of US \$146,319 million. From the year 2000 up to 2002, investments into India grew 65% but declined during the subsequent two years from 2002 to 2004. 2004 to 2006, India once again experienced a surge in investments, growing 47% in 2004-05 and 72% in 2005-06 respectively. The year 2006-07 was an exceptional year with a 125% growth in FDI inflows. The subsequent year was again very good, where investment inflows gained 97%, followed by an increase of 11% during 2008-09. During the year of the financial crisis, Apr'09-Mar'10, foreign direct investments suffered a slight setback with inflows declining a little over 5% over the previous year. Last year (Apr'10-Mar'11) FDI into India declined further by 25% to US \$19,427 million

Results and discussion:

The trend of working population to non working population is increased during the study period. This will increase the purchasing capacity in the country, providing further buoyancy to the retail sector. The urban population is increased during the study period. Indian lifestyle and shopping habits are rapidly increased during the study period. Consumer goods market grows from US \$ 11.6 bn to US \$ 33 bn during the study period. Share of organized retail market increased during the study period, but only 5-6% share, representing a tremendous opportunity.

Opportunity to Foreign Players:

With the boom of the service sector and increased industrial output, the growth pace has spiraled in the last decade. This has set a sustainable platform for consumerism and rising per capita spend leading to an inclusive growth. Growing disposable income has led to increasing consumer aspiration, with easy access to consumer finance lending a source to achieve these aspirations and desires. The middle class today accounts for 47 percent of the total households in the country, which has rapidly grown over the last decade and is expected to have a similar trend over the coming years. The Indian consumer today is exposed to a large variety of products from where they pick and choose till they get the right product at the right price. Private Final Consumption Expenditure (PFCE) accounts for 57 percent of the Indian GDP. Retail contributes US\$ 291 billion to the PFCE of which organized retail accounts for 15 percent. The total retail spend is estimated to double in the next five years, of which organized retail growing at a CAGR of 22 percent is estimated to be 21 percent.

To Conclude:

It can be concluded that the retail market in India today remains largely an untapped market. With increasing income, consumption, the Indian retail market attracts international players. Thus Indian market is the high potential to attract the international market players.

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