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Changing Scenario of Retail Sector in India and Global Competitiveness

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Abstract

The paper study is made about the history of retail sector in India. and the changed scenario is also evaluated, on how where it evolved from the stacked *kirana* stores to world class malls. The various facets of the structure and fragmentation of the retail sector are examined. FDI in retail is a burning issue and its different aspects are explored in detail to establish its veracity keeping in mind the interests of the common man at large as regards employment, transfer of technology, level of competition, choice to customers etc.

Six Hypothesis have been formulated to understand the relationships between (a) Organized and Unorganized Retail Sector (b) FII and Unorganized Retail Sector (c) FII and organized Retail Sector (d) BSE Index & Total Retail Sales (e) BSE Index and Unorganized Retail Sector (f) BSE Index & Organized Retail Sector.

I. Introduction

THE NEW INDUSTRIAL Policy of 1991 ushered in a new era for the Indian economy with abolition of various restrictive and licensing policies. Policy changes were made to attract lucrative investment in the country by both national and international players by making modifications in various Laws and Acts like Labor Laws, Child Labor Regulations, environmental Protection Lobby, Intellectual Property Rights, Social Responsibility, Industrial Policy, FEMA, SEBI, tax laws etc.

The changes in the economic regime reflected positively in the economic results with the economy growing at over 8.7% in the year 2008 (ES, 2007-08) annually and expected to overtake China by 2015, major contributor being

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service sector contributing 56% of our GDP. The Indian economy is expected to grow larger than Britain's by 2022 and Japan's by 2032 to become the third-largest economy in the world after China and US and finally become the second largest economy after China by 2050 (Agarwal 2000; IRR, 2009). According to AT Kearny Study India is lagging behind only China as an attractive destination for global investment. India has been lifted India to the rank of "top reformer" in South Asia by the Washington based International Finance Corporation in its 2008 doing Business Report up 12 places from its 2007 rank[1].

According to Euro Monitor, retailing is the largest private sector industry in the world economy with the size of the global industry exceeding US$6.6 trillion with only agriculture employing more people[2]. As per Associated Chambers of Commerce and Industry of India (ASSOCHAM), the overall retail market is expected to grow by 36%. The organized sector is expected to register growth amounting to ₹ 150 billion by 2008. The total size of the market is also expected to increase to ₹ 14,790 billion from the current level of ₹ 5,880 billion (Indian Business, 2006).

Indian retailing is now popular at a global level, a report released by AT Kearny, "India ranked 5th in Global Retail Development Index and 3rd in Confidence Index, maintaining its position as the most attractive destination for retail investment. The Indian retail market, which is the fifth largest retail destination globally, according to industry estimates is estimated to grow from US$ 330 billion in 2007 to US$ 427 billion by 2010 and US$ 637 billion by 2015 (IBFF, 2007).

II. Issues and Problems of Retail in India

2.1 *Media Impact*

The increasing impact and effect of media is evident (twice) from the way it actually shapes our desires and wants and induces us into purchasing goods and services through effective and forceful advertising. It has also increased consumer awareness about the features and costs of both domestic and imported commodities.

2.2 *Increasing Disposable Income*

Growth in economy with increasing GDP, surging index, increasing employment opportunities has led to significant rise in the standard of living resulting in considerable increase in the average disposable income

Table I reveals that gradually it is the share of the consuming and climber segment that has steadily increased to comprise 39.5% and 43% of total population respectively. Their economic power has greatly improved due to which their demand for all kinds of comfort and luxuries is constantly on the rise which is driving the Indian economy on a higher trajectory. The share of aspirants and destitute has fallen down to 10.7% and 8.7% respectively while the share of the very rich increased marginally to 2.7%

Table I
The Changing Indian Market Structure

Socio- Economic classification (Annual HH income)		**Household Millions (% of population)**					
		1995-96		2002-02		2006-07	
Very Rich	(>INR ₹ 360001)	1.2	0.8%	2.6	1.5%	5.2	2.7%
Consuming class	(INR ₹ 80001-60000	32.5	20.1%	46.4	25.9%	75.5	39.5%
Climbers	(INR ₹ 40001-80000)	54.1	33.7%	74.4	41.9%	81.7	43.1%
Aspirants	(INR ₹ 28001-40000)	44.0	27.4%	33.1	18.8%	20.2	10.7%
Destitute	(INR ₹ <28000)	33.0	20.5%	24.1	13.7%	16.5	8.7%

Source: National Council for Applied Economic Research (NCAER), Projections on Structures of Market released in 2001.

2.3 *Changes in Expenditure Pattern*

Economic condition of the population is reflected by the distribution of expenditure between the food and non-food items.

From Table II we see the change in the expenditure pattern of the consumer over the last decade where it increased from 5.7% to 6.7% against the GDP growth from 5.7% to 8.7%. The increase in the expenditure pattern is reflected in the increase in the sales.

Table II
GDP, Private Final Consumption Exp. & Retail Sales Growth, 1994-07
(Compound Annual Growth Rate)

	1994-95 to 1999-00	**2000-01 to 2002-03**	**2003-04 to 2006-07**
Real GDP	6.6	4.7	8.7
Real Private Final Consumption Expenditure	5.7	4.0	6.7
Retail Sales	13.6	4.8	10.9

Source : Joseph, Soundararajan, Gupta and Sahu (2008)

III. Review of Literature

Indian Retail Industry is projected as the new boom industry attracting big business houses like Ambani's, Tata's, Raheja's and also international giants like Wal-Mart, Tesco, Carrefour etc. The tremendous potential of retail is unexplored and untapped due to restrictive and regulatory policies towards FDI in retail which is capped at 51%. Hence various studies have been conducted on the emerging trends, scope, growth and future prospects of Indian Retail. Given below is a review of various studies and literature of Indian Retail.

Dominic (2007) in his work said, that with the organized retailers investing huge amounts it shall spell a boom for Indian retail.

AT Kearney (2008), in their report recently identified India as the "second most attractive retail destination" globally from among thirty emergent markets which has put India firmly on the world map. With a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy (Sarwar, 2006).

In a recent presentation, FICCI has estimated the total retail business to be ₹ 11,00,000 crores or 44% of GDP. According to this report dated Nov. 2003, sales now account for 44% of the total GDP and food sales account for 63% of the total retail sales, increasing to ₹ 100 billion from just ₹ 38.1 billion in 1996 (Sarwar, 2006).

The report by Sarwar (2006) also said that the last few years witnessed immense growth by this sector, the key drivers being changing consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the government increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers.

According to the global consultancy firms AC Neilsen and KSA Technopak, India has the highest shop density in the world. In 2001 they estimated there were 11 outlets for every 1,000 people (Guru swamy, Sharma, Mohanty and Korah, (2005).

Further, a report prepared by McKinsey & Company and the Confederation of Indian Industry (CII) predicted that global retail giants such as Tesco, Kingfisher, Carrefour and Ahold were waiting in the wings to enter the retail arena. This report also states that the Indian retail market holds the potential of becoming a US$ 300 billion per year market by 2010, provided the sector is opened up significantly. It does not talk about creating additional jobs however, which should be the prime concern of the policy maker[3].

The study conducted by the Indian Council for Research on International Economic Relations (ICRIER) came out with its report on FDI in retail sector, strongly recommending for 49 percent FDI. It says, "In the initial stage, FDI up to 49 per cent should be allowed which can be raised to 100 per cent in 3-to-5 years depending on the growth of the sector. FDI cap below 49 per cent would not bring in the desired foreign investment[4].

Despite the rosy picture that is being painted by the government and experts, there is a lobby which is strongly against introduction of FDI in retail fearing it might be a loss to the Indians and gain only to a few and would further deepen the rich poor divide. A report on ASDA Wal-Mart, a wholly owned UK subsidiary of Wal-Mart since 1999, said that the constant pursuit of Wal-Mart to reduce prices was having adverse impact on employees and suppliers (Walmart, 2009).

Drishtikona (2006), work states that there is fear that Wal-Mart might create problems for retailers in India as it did for their Chinese counterparts. Kumar (2005) in his work, said that India should push for liberalisation and create millions of jobs. Sreejith and Raj (2007) in their paper, wrote that after the initial standardization of the agribusiness and unification of consumer preferences, both foreign multinationals and local retailers would coexist and complement each other.

IV. The Study: Objective, Hypothesis and Methodology

The study aims at tracing the evolution of retail and analyzing the present retail situation involving the issues, opportunities, challenges etc. An attempt has been made to analyze the reasons and implications for the change in the structure. A detailed study has been made to evaluate where the Indian Retail Industry stands vis-à-vis other developed and developing countries. The standing of Indian retailers, both small and big business houses in comparison to the foreign giants is also analyzed to establish whether they are in a position to face the sophisticated and developed global retailers. Also, FDI in retail is a burning issue with many foreign giants knocking at the door. But there are apprehensions and fear regarding their entry and mode of operation. A study has been made to find out that whether the apprehensions are justified or not and suggestions have also been made for the same. Keeping in view the current situation projections for the future have also been made as regard to where Indian retail would stand in the next few years.

4.1 *Objectives*

The following objectives were identified to be studied

i. To evaluate the relative contribution of service sector as compared to other sectors
ii. To study the value of retail industry as a whole and also its various constituents individually.
iii. To trace the evolution of retail from a local kirana to a sophisticated mall.
iv. To find the reasons for the drastic change in the retail pattern and consumer behavior and insight.
v. To understand the existent structure of retail, in terms of fragmentation, employment, contribution to growth, leverage to the economy, growth pattern and also the challenges faced by this sector.
vi. The current and future global standing of Indian Retail is examined.
vii. Weigh the need and reason for FDI in retail against its pros and cons.
viii. Suggestions have also been made to remove obstacles in the path of growth of Indian Retail Industry.

4.2 *Hypotheses*

The following Null Hypotheses are premised

Null Hypothesis $H0_1$: *There is no relation between the movement of Organized and Unorganized Retail Sales.*

Null Hypothesis $H0_2$: *There is no relation between the movement of FII and Unorganized Retail Sales.*

Null Hypothesis $H0_3$: *There is no relation between the movement of FII and Organized Retail Sales.*

Null Hypothesis $H0_4$: *There is no relation between the movement of BSE Index and Total Retail Sales.*

Null Hypothesis $H0_5$: *There is no relation between the movement of BSE Index and Unorganized Retail Sales.*

Null Hypothesis $H0_6$: *There is no relation between the movement of BSE Index and Organized Retail Sales.*

4.3 *Research Methodology*

The research methods being used in the following paper is the Student t-test to test the various hypotheses taken up. The results are then tested at 5% level of significance to establish the results.

$$S = \sqrt{\frac{\sum (X - M_1)^2 + \sum (X - M_2)^2}{n_1 + n_2 - 2}}$$

$$t = \frac{M_1 - M_2}{S} \sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

V. Analysis of Retail in Indian Perspective

The history of the Indian Retail Industry can be traced back to the traditional *kirana* stores which provided convenience to customers without indulging in specialized services. They employ a large number of people and got regular financial and infrastructural support from government. Khadi & Village Industries Commission supported the rural retailers. With the gradual integration of the economy with the world economy in the 1980's manufacturer's entered the retail market. Organized retailing made its presence felt through outlets of Bombay Dyeing, S. Kumar's, Grasim's, Titan etc. The 1990's saw a practice where 'pure retailers' entered the retail arena with Food World, Subhiksha, Nilgiris in food and FMCG, Planet M, Music World in music and Crossword, Fountainhead in books. By 1995's the trend got more modernized with shopping centers and malls being opened all across the country offering customized services aiming at making shopping a pleasure and not a routine exercise. The system evolved further with the opening up of hypermarkets and supermarkets that stressed in providing the 3 V's to customers, i.e. Value, Variety and Volume.

5.1 *Fragmentation of Indian Retail Sector*

The retailing industry is divided in to organized and unorganized segments. The organized sector comprises the outlets that are under the purview of the government and are registered for the purpose of sales tax, income tax and other relevant laws. It includes the supermarkets, chain stores, malls and other corporate backed undertakings. However the majority of the retail outlets in India fall under the unorganized segment with shops in front and houses at the back and other conventional format involving minimum investment comprising of local *kirana* shops, owner manned shops, hand carts, *paan/beedi* shops, pavement sellers, small grocery shops, makshift stands etc.

Table III given below we can see the fragmentation of the Indian Retail Industry where the organized sector contributes 4% and unorganized sector 11% presently. By 2010, the share of organized retail is expected to grow to 11% and that of unorganized segment to dip to 89%. The dominance of unorganized sector is projected to stay for quite some time in the future as well.

Table III
Size of Indian Retail Industry

	2007	2010
Organized Sector	4%	11%
Unorganized Sector	96%	89%

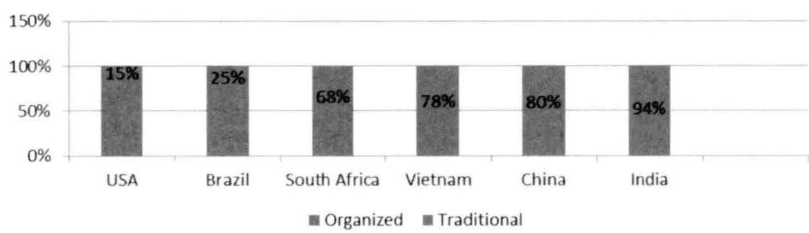
Source : Agarwal and Agarwal (2007)

From Table IV we see that India Retail is on the inflexion point and organized retail is rising sharply on a steep slope mainly due to the increase in the rate of consumption and the liberalization of the Indian economy. The expected growth rate of 30-35% would make the industry worth US$365 billion in 2008 and US$ 410 billion by 2010 which is not difficult to imagine with the heavy inflow of investments to the tune of US$ 25-28 billion and US$ 70 billion by 2008 and 2010 respectively. The significance of retail in the economy is expected to grow manifolds with a projected 22% contribution to GDP. The rural retail size is expected to register significant progress. As for organized retail, according to a study conducted by Fitch[2], organized retail industry is expected to grow rapidly, especially through increased levels of penetration in larger towns and metros and also it begins to spread in smaller towns and cities.

Table IV
Statistics about Indian Retail Industry (2007-10)

	2007	2008 (Estimated)	2010 (Estimated)
Growth Rate of Retail Industry	25-28%	30-35%	–
Total Size of Retail Industry	US$ 300 billion	US$ 365billion	US$ 410 billion
Organized Retail Space	14 million sq. ft.	16 million sq. ft.	–
Additional Investment	–	US$ 25-28billion	US$ 70 billion
Contribution to GDP		8-10%	22%
Rural Retail Size	US$ 30 billion	US$ 36 billion	US$ 45 billion

Source : Data compiled from http://www.assocham.org/prels/shownews.php?id=1339



Source : At Kearney Report (2008)

Figure 1
Comparative Penetration of Organized Retail

The share of unorganized retailing in India is the largest in South-East Asia, i.e. 98% as compared to 75% of Indonesia. There are various reasons responsible for it. The low investment, legal and educational requirements associated with opening a small retail store at the corner of the society is pushing both the unqualified and unemployed youth towards it. The stagnant growth in manufacturing sector is not helping their cause any further. However though it is easy to enter the segment, the scope of expansion and profitability are also limited due to limited access to labor, capital and real estate options.

From Table V we can see that retail in India is still in its early days and we can say that we are in the second phase roughly. The complex and sophisticated measures like integrated supply chain management; mergers, consolidation, etc. are still a thing of the future.

Table V
Journey of Organized Retail in India.

Year	Growth	Function
2000	First Phase	Entry, Growth, Expansion, Top line focus
2005	Second Phase	Range, Portfolio, Former Options
2008	Third Phase	End to end supply chain management, Backend operation, Technology, Process
2011	Fourth Phase	M&A, Shakeout, Consolidation, High Investment

Source : Ernst & Young Report (2006); Sreejith and Raj (2007)

In Table VI we can see though organized sector is just 3-4% of the total sector, the sales are expected to increase from 35000 crore in 2006 to a projected figure of Rs 60800 crore in 2010 indicating a growth rate of 1116%

Table VI
Growth of Retailing Business in India

(In ₹ Crores)

Year	Retailing business sales (Organized Sector)	Percentage growth over previous timeline
1999-2000	5000	
2003-04	15000	200%
2005-06(P)	35000	133.33%
2009-10	60800	73.71%

Source : Economic Times, January 29th, 2005. pp. 10

5.2 *Retailing Format in India*

Table VII enlists the various formats operate under the organized sector. Consumers belong to all classes in terms of life style and income group and there are a variety of stores to cater to individual customers.

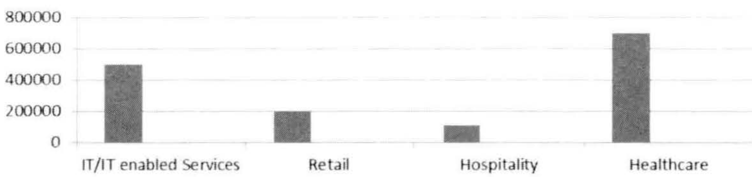
Table VII
Major Formats for In-Store Retailing

Format	Description
Branded Stores	Showrooms owned or franchised by manufacture having exclusive and complete range for a given item and having certified brand quality.
Specialty Stores	Carry most of the brands available and provide choice to customers who can compare between the brands.
Department Stores	Stores organized into departments such as clothing, furniture, shoes, appliances, toys, etc and cater to varied consumer needs under one roof.
Supermarkets	One-stop large self-service retail outlets that cater to diverse consumer needs
Discount Stores	Offer discounts on retail prices by selling large quantities and utilizing economies of scale
Hyper-mart	Offer a wide choice at low prices, also offering services like cafeterias. Larger than supermarkets and like warehouses often.
Convenience Stores	Small self-service retail outlets located in crowded urban areas with extended operating hours
Shopping Malls	Variety of in-store retailers available under one roof

Source : Compiled from various magazines, articles and business dailies.

5.3 *Employment Opportunity*

The contribution of retail towards providing employment opportunities is vital. It provides employment to 8% of the total workforce and the figure is expected to only rise in the near future. The organized sector is expected to increase its share by 9-10%[5]. Retail caters to diversified needs of different consumer groups. Accordingly the job opportunities also created also vary and provides an opportunity of people of all qualifications, age groups, sex, etc. the entry of multinationals has created a huge demand for professionals which has also paved the way for the creation of various management institutes offering courses in retail. These professional are in a better position to bargain for higher salaries and sops.



Source : Technopak (2007)

Figure 2
Manpower Gap by 2010

Figure II depicts the manpower gap by 2010. The above chart shows the man-power gap that is expected to be created by 2010. The greatest demand is expected in Healthcare and IT segments at 7,00,000 and 5,00,000 jobs. Retail is expected to have a man-power gap of 2,00,000 jobs.

However this should be viewed as a new vista of opportunity and efforts should be made to make the most of it in a scenario where employment opportunities are serious concern despite an 8% GDP growth. The stagnation in manufacturing sector is not helping the cause either. Hence retail sector has created a window of opportunity for lakhs of people. It should be noted that organized retail employs roughly 5 lakh people as compared to 3.95 crore in unorganized retail. Minimum infrastructure, capital and qualification needs are the main reasons behind this huge difference. Though retail employs an impressive 8% of total population, it is less when compared with other countries as shown in Table VIII. Retail trade is extremely vital for the socio-economic equilibrium in India.

Table VIII
Share of Retailing in Employment across Different Countries

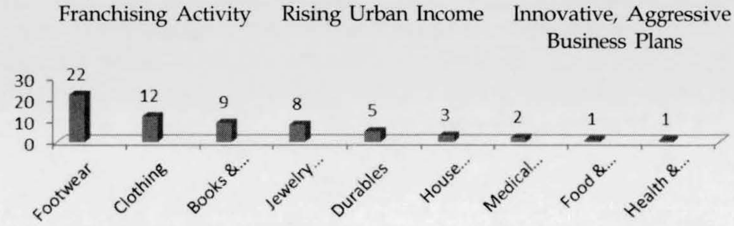
Countries	Employment (%)
India	8
USA	16
Poland	12
Brazil	15
China	7

Source : Roslin

However with global giants knocking at the doors the magnitude of jobs that would be created is surely to shoot up steeply.

VI. Sectoral Retail Business : A Perspective

From Figure 3 we see that the organized retail penetration (ORP) is the highest in footwear with 22% followed by clothing. Though food and grocery account for largest share of retail spend by the consumer at about 76%, only 1% of this market is in the organized sector. However, it has been estimated that this segment would multiply five times taking the share of the organized market to 30 percent in the coming years.



Source : Ernest & Young Report (2006)

Figure 3
Organized Retail Penetration across Categories

Table IX depicts the growth in retail which grew at an average of an impressive 11.2% in the period 2004-07. Food and grocery is the most important segment in terms of volume of total retail at ₹ 8680 billion followed by clothing and footwear at ₹ 1356 billion and non-institutional healthcare at ₹ 1159 billion. However in terms of CAGR, beverages have grown fastest at 34.7% followed by furniture and furnishing at 24.4%. In organized retail clothing and footwear constitute the highest share at ₹ 251 billion followed by furniture at ₹ 101 billion, sports items at ₹ 63 billion followed by food & grocery at ₹ 61 billion. However the fastest growing segment is personal care at 46.9% followed by jewelry at 40.5%. It can seen that specialized, sophisticated and the branded articles fall in the organized segment. Also these items are basically desired by the upper classes that frequent the malls. On the other hand conventional items like food, pharmaceuticals and Jewelry constitute a very small part of organized sales. These items are desired by the masses, hence stressing that the organized sector is still out of bounds for the large masses and they still access the small traditional stores and fruits of development has not reached them yet.

Table IX A
Growth India Retail - Total vs. Organized

India Retail (₹ bn)	2003 -2004	2004 -2005	2005 -2006	2006 -2007	CAGR 2004-2007 (%)	Percentage of Total Indian Retail (2007)
1. Food & Grocery	7028	7064	7418	8680	7.3	59.56
2. Beverages	212	309	373	518	34.7	3.56
3. Clothing and Footwear	777	993	1036	1356	20.4	9.30
4. Furniture, Furnishing, Appliances and Services	512	656	746	986	24.4	6.77
5. Non-institutional healthcare	950	972	1022	1159	6.9	7.95
6. Sports Goods, Entertainment, Equipment & Books	212	272	308	395	23.0	2.71
7. Personal Care	371	433	465	617	18.5	4.23
8. Jewelry, Watches, etc.	530	610	655	863	17.7	5.92
Total Retail	**10591**	**11308**	**12023**	**14574**	**11.2**	**100**

Table IX B
Growth India Retail - Total vs. Organized

Organized Retail (₹ bn)	2003 -2004	2004 -2005	2005 -2006	2006 -2007	CAGR 2004-2007 (%)	Percentage of Total Organised Indian Retail (2007)
1. Food & Grocery	39	44	50	61	16.5	10.20
2. Beverages	11	12	13	16	14.7	2.68
3. Clothing and Footwear	168	189	212	251	14.3	41.97
4. Furniture, Furnishing, Appliances and Services	67	75	85	101	14.8	16.89
5. Non-institutional healthcare	14	16	19	24	20.0	4.01
6. Sports Goods, Entertainment, Equipment & Books	25	33	44	63	37.0	10.54
7. Personal Care	11	15	22	33	46.9	5.52
8. Jewelry, Watches, etc.	18	24	33	49	40.5	8.19
Total Organized Retail	**350**	**408**	**479**	**598**	**19.5**	**100**
Share of Organized Retail in Total Retail (%)	3.3	3.6	4.0	4.1		

Source : Joseph, Soundararajan, Gupta and Sahu (2008)

6.1 *Case for FDI in Retail*

There is a hot debate going on in the political, social and economic circle regarding allowing FDI in retail. There are different schools of thought which vehemently support their view point. The debate is the outcome of the growing interest among the foreign investors to invest in India. KPMG and FICCI estimated that that the Indian retail market consists of US$ 200 million of which the organized market constitutes US$ 6.4 billion. The share of the unorganized market is expected to multiply to US$ 23 billion by 2010. However it is also important to protect the interests of the 12 million shops which are a part of the unorganized segment[6]. It is this vast segment of untapped potential which is the source of attraction for major players worldwide. There has been a wide change in the consumer behavior in India. The taste and lifestyle are changing, there is growing brand consciousness, the propensity to spend has increased manifold, there has been growing inclinations towards western culture and lifestyle. The new emerging middle class has led to a significant in demand for goods and services. Consumers are demanding quality and are ready to pay the price for it. Also there has been increased demand for personalized services. Foreign multinationals brands like Nautica, New Balance, Wal-Mart, Tesco, Carrefour are have been monitoring the scene closely and are waiting in the wings to enter the Indian market for tapping the unexplored potential of the organized segment especially.

Table X
International Retailers in Indian Market with Own Operations

Retailer	Type	Status
Carrefour	Multi-format retailer	Evaluating
Auchan	Hypermarkets	Evaluating
Shoprite	Supermarkets	Opening Mumbai
Spencer	Lifestyle stores	Already in
Dairy farm	Multi-format retailer	Tied up with RPG
7-Eleven	Supermarkets	Evaluating
Metro	Cash and carry	Already in
Wal-Mart	Hypermarkets	Already in
Landmark	Lifestyle stores	Already in
Mango	Apparel retailer	Already in

Source : Industry Reports

Table XI
International Retailers in India

Name of Retailer	Mode of Entry
Wal-Mart	Tie-up with Sunil Mittal's Bharti Enterprises
Microsoft's first shop-in-shop pilot	Tie-up with Tata Group Subsidiary Infiniti's Retail multibrand consumer's durable retail format, Croma
Gucci	Setting up store in Mumbai
Apple Inc.	Tie-up with Reliance Retail through 'iStore by Reliance Digital'
Landmark Group	Tie-up with Netherlands's Spar International to open Dutch Company's franchise stores
US Coffee chain Starbucks	On way to set up first store in India

Source : www.ibef.org/industry/retail.aspx and other magazines, articles and newspapers

Table XII
Studies on Global Retailing in India

	Likely Entry Modes by Foreign Advantages	Difficulties Retailers
1. A.T Kearney Study		
Least competitive and saturated of all major global markets	Wal-Mart, Carrefour, Tesco, Casino likely to use FDI rules and enter through partnership with local retailers	High taxes, poor infrastructure, bureaucratic hurdles and high cost of real estate.
Low entry barriers to set up base in terms of competitive landscape	Marks & Spencer and Benetton Group likely to use franchisee model and switch to hybrid ownership structure.	
2. Goldman Sachs Report		
Credits India with potential of delivering the fastest growth over the next 50 years.		
3. Standard's & Poor's Report		
FDI in India is likely to grow fastest in the next few years.		

Source : Compiled from http://www.indiaretailforum.in/chairman.htm and other articles, magazines and business dailies

6.2 *Current FDI Policy in Retail*

The Government has expressed its desire to take forward the liberalization and globalization measures it initiated in 1991 when Dr. Manmohan Singh was the Finance Minister. Even according to the World Bank opening up of the economy to FDI would be beneficial to Indian retail in terms of price and availability[7]. However they are cautious in their approach for fear of possible backlash in the backdrop of various controversies and issues surrounding matters like SEZ issue, Nandigram and of late the Singur controversy. There has been stiff opposition by small retailers against opening up of retail sector towards FDI. Keeping in account the interest of the small retailers and the stiff resistance by opposition parties the government is in a position where it has to take a decision after deep thought and deliberation.

The Indian government has meanwhile commissioned two groups - Indian Council for Research on International Economic Relations (ICRIER) and the National Council for Applied Economic Research (NCAER) to study how the retail and agriculture sector would be affected by FDI and the entry of big corporate and industrial houses.

6.3 *Guidelines on FDI*

- Foreign Direct Investment (FDI) to the extent of 100% In Cash and Carry Wholesale formats. Franchisee arrangements are also permitted in Retail Trade.
- Single Brand Products (These cover only products which are banded during manufacturing): FDI up to 51% is permissible in the retail trade of single brand products subject to the following conditions.

i. Products to be sold should be of a single brand only.
ii. Products should be sold under the same brand internationally.

The present regulations permit 51% FDI in single-brand product retailing as per the policy announced on February 10, 2006. However, only a few brands such as Nike (footwear), Louis Vuitton (shoes, travel, accessories, watches, ties, textiles ready to wear) ,Lladro (porcelain goods), Fendi(luxury products), Damro (knockdown furniture), Argenterie Greggio (silverware, cutlery, traditional home accessories and gift items) and Toyota (retail trading for cars), have obtained approvals for trading.

The investment climate in India is yet not ideal for investment with frequent change in policy and investment plans and one cannot say for sure how long the global firms would wait patiently for the opening up of the sector. The final decision rests with the government and it has to be taken considering both the lucrative FDI and the pressure from retailers and opposition parties.

6.4 *Detailed Analysis of Pros and Cons of FDI*

The Indian market is emerging as a big temptation for global retailers worldwide due to its vast uncharted opportunities. Also their own markets are either saturated or declining which is pushing them towards investment in India.

The advantages are discussed here. With the establishment of outlets by global players simultaneous backward and forward linkages are expected to be created which would support the infant and supporting industries. Entry of reputed brands like Wal-Mart, Carrefour, Ahold and JC Penny would upgrade infrastructure and technology in terms of management techniques, market savy and market intelligent practices, IT techniques etc. especially for the food and agriculture industry that suffers from serious infrastructural bottlenecks. FDI in retail is further expected to enhance productivity and quality of goods through increased competition and creation of large scale economies leading to reduced prices of goods. Also coexistence of a number of global chains would reduce cost due to price wars and competition. The shopping facilities and services provided by big malls, supermarket and hyper-markets provide value shopping to the end customers. Establishment of global chains would substantiate exports considerably.

The major disadvantages are discussed here. Retail Giants worldwide are waiting in the wings to enter the Indian Retail market. Wal-Mart the world's biggest retailer has a turnover of US$ 256 billion, growing at an average of 12-13% and the average size of its store is 500 sq. ft. In comparison the Indian retail had a turnover of ₹1,86,075 and 4% of outlets were greater than 500 sq. ft in size. Above comparison represents the stark contrast between the two and makes it evident that even the organized sector would have to face stiff competition and it is feared that small retailers would be wiped off due to the low price strategy followed by big retailers.

Retail sector provides 8% of total employment which is a significant number in the light of the stagnant growth in the manufacturing sector. The Center for Policy Alternatives estimates that if FDI driven retailers were estimated to take 20% of retail trade it would result in job losses for 8 million people (TCI, 2006). International retail outlets might create a monopolized market situation; the entry of global giants would imply that they would control the entire supply chain and make it impossible for the small retailers to compete where the big retailers would be controlling the market by buying low and selling high. As regards social responsibility though an individual customer would benefit from the low price and big retailers would pocket profits, FDI in retail would be highly detrimental to the large number of personnel involved in retail trade.

However due to the existence of diversified consumer market catering to all kinds of customers in India there is scope for existence of both organized and unorganized segment.

In the near times unprecedented growth is expected in the retail arena. A joint study by ASSOCHAM and KPMG has estimated Indian market to be worth US$ 353 billion in 2008 and expect it to grow 8% annually to reach US$ 416 billion by 2010[8]. There is growing demand for single window retailing in organized segment and allowing FDI in multi-brand retailing. The decision should be taken after detailed deliberation considering all sections of the society alike and protecting the interests of the small retailers especially.Economic Survey 2008 advocated allowing FDI in multi brand retail for propelling economic growth with a cap on sectors like health and insurance (TOI, 2009).

6.5 *Future Prospects for Retailers in India*

The onset of a globalised era has changed the entire structure of the world economies which have integrated into a single market where boundaries are being removed at a rapid pace. The size and scope of the India Retail Industry is indeed substantial and promising. However, still a lot has to be done to make it a retail powerhouse by both the government and private players.

There are various factors fuelling the growth in the retail sector in India which are expected to support steady real growth in retail sales of 7.2% a year between 2006 and 2010. Some of the factors are enlisted below.

There have been widespread demographic and structural changes with the economic upsurge of the economy which has led to an increase in the income and standard of living of working class. Development of banking structure has led to easy availability of finance for hire purchase and installment schemes that are enabling middle class households own luxury items. Also there has been a paradigm shift in the entire retail structure with the introduction of technology, brands, personalized services, food joints, music stations, entertainment shows, gaming zones all under one roof. However the organized retail markets share in the total market is just 4% and there is a lot of scope to explore and utilize the potential. It is being affected positively by liberalization measures by the government, surge in GDP, rising incomes and standard of living and also the recent inflow of FDI in the country.

Despite a low financial base the domestic retailers would give stiff competition to their foreign counterparts. They are expected to get protection from government in the form of sops, tax incentives, concessional rate of tax, infrastructure, cheaper credit, warehouse, supply chain etc. foreign retailers in turn would be subject to stiff FDI restrictions, licensing, procedural bottlenecks, and higher taxes. The price conscious Indian customer might still favor the local retailer who would have a lower cost of operation as compared to the foreign retailer who would have to bear higher costs of operation initially.

Though the growth rate of per capita income in 2007-08 is projected to be 7.2% (ES, 2007-08) per cent, the inequality among the Indian population is significant where on hand there is class of consumers who are struggling to make both ends meet and while there is another which is in a position to afford all luxuries and comforts with ease. It is this new emerging middle class which is brand conscious and willing to spend for the specialized associated with organized retailers due to which this class is the main target.

6.5.1 *Strong Prospective of Food and Groceries Sector*

It is expected that the food and groceries will grow at the fastest rate in the retail sector but it is to be noted that organized retail contributes to just 1% of the food segment and the majority is under the prerogative of traditional retailers. This speaks volumes of the untapped potential of the segment.

Other promising segments are IT, consumer Durables, Home Decoration, Health and fitness centres, Beauty parlours etc that would be benefited with improved infrastructure and technology.

In Table XIII it is evident that clothing, perfumes, personal computers and refrigerators are projected to make a phenomenal jump in the sales at 84.88%, 50.69%, 95.09%, and 54.66% respectively. Comparatively, television sets, cable TV and video recorders are projected to make a sedate increase in their projected sales value. The above trends also indicate the change and preferences of the consumer reflecting in the sales value.

Table XIII
Projected growth in retail sales

	2005	2006	2007	2008	2009	2010	(%) Growth of Projected Sales 2005–2010
Clothing, cosmetics & household goods							
Clothing, sales value (US$ m)	58,352	65,818	74,505	84,724	96,130	107,883	84.88
Perfumes & fragrances, sales value (US$ m)	2,103	2,291	2,464	2,696	2,941	3,169	50.69
Electronic & domestic appliances							
Television sets (stock per 1,000 population)	91	94	97	101	109	118	29.67
Television sets, sales volume ('000)	8,867	9,436	10,029	10,655	11,204	11,795	33.02
Cable-TV subscribers (per 1,000 population)	28	29	30	31	32	33	17.86
Personal computers, sales volume ('000)	693	789	894	1,026	1,178	1,352	95.09
Refrigerators, sales volume ('000)	4,230	4,626	5,048	5,505	5,996	6,542	54.66
Video recorders, sales volume ('000)	121	121	125	127	128	129	6.61

Source : Compiled and Calculated from Economist Intelligence Unit.

6.5.2 *Investment Opportunities*

The opportunities for investment in Retail Sector have been outlined in the Table XIV below

Table XIV
Opportunities for Investment in Retail

Estimated Investment Potential	US$ 5-6 billion in next 5 years
Location	Most retail formats in top cities due to which there is tremendous potential for investment in two-tier cities over the next five years.
Emerging Sectors with High Growth Potential	(a) Food & Grocery (b) Clothing (c) Furniture and Fixtures (d) Pharmacy (e) Durables, Footwear and Leather (f) Watch & Jewelry.
Fastest Growing Formats	(a) Specialty and Super market (b) Hyper Market (c) Discount Stores (d) Department Stores (e) Convenience Stores and e-retailing
Supply Chain Infrastructure	Cold Chain and Logistics are an important potential investment areas
Wholesale Trading	These cash-and-carry stores appeal to a large number of retailers who do not have to approach multiple suppliers for diversified needs e.g. German giant Metro AG and South African Holding which have set up store son wholesale basis in Bangalore and Mumbai respectively
Cheap and Easy Availability of Consumer Credit	In addition to the large number of schemes available, even more attractive schemes are expected to be offered to the customers.

6.5.3 *Investment Plans of Large Retailers*

By 2010, the retail market would grow to ₹ 20,85,000 crore, organized retail would be ₹ 52,400 Crore and the share of malls in it would be ₹ 38,447 crore, an increase from 20% to 73%[9].

The mindset of the consumers is also changing and they are preferring malls and stores offering a specialized service which is a sign of things to come that might force the local retailers to alter their modus operandi and focus on providing services along with utility.

Despite the huge strides made in Indian Retail market it still lags behind when compared globally but it is this aspect which speaks of the vast unexplored potential of the retail market which the big players plan to exploit.

Table XV
Road ahead for large Retailers in India

Hypermarkets, now and ahead...				
Retailers	**Cities**	**Format**	**Number of Stores**	**Expansion Plans***
Big Bazaar	26	Hypermarket	36	80 stores by 2008; 225 by 2010
Spencer's	All India	Hypermarkets	7	60 Hypermarkets by 2008-09
Star India Bazaar	Ahmedabad	Hypermarket	1	Two more stores are planned in Mumbai & Bangalore
Shoppers Stop-Hypercity	Mumbai	Hypermarket	1	To establish 23 hypermarkets by 2010
Vishal Mega mart	28	Hypermarket	46	410 stores by 2010
Reliance Retail Hyderabad,	Hyderabad, Delhi, Jaipur	Hypermarket/ Supermarket/A 1	100	1000 Hypermarkets
Shoprite	Mumbai	Hypermarket	1	3 stores by 2008; enter cash & carry Format
Metro A.G.	Bangalore	Cash n' Carry	3	Set up Distribution Centres in Delhi, Mumbai, Kolkata Hyderabad & Chennai
Home Care: Magnet	Mumbai	Hypermarket	1	50 stores over next five years

Note : * Estimated figures of key players
Source : Technopak (2007)

Table XVI depicts the expected growth rate of retail sales in India both in Indian rupees and US$. The noticeable aspect is the rate of growth of sales which is expected to be rising and stable over the years which is expected to foster the growth rate of retail sector.

Table XVI
Growth in Sales from Large Format Stores

Retail Trade	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Retail Sales (Rs billion)	15,409.0	17,360.0	19,465.0	21,715.0	24,215.0	27,107.0
Retail sales (US$ billions)	349.4	385.8	421.3	467.0	516.3	564.7
Retail Sales volume growth (%)	6.0	7.5	7.7	6.9	6.8	7.3
Retail sales US$ Value growth (%)	13.6	10.4	9.2	10.8	10.6	9.4

Source : Economic Intelligence Unit (EIU)

The trends that are driving the growth of retail sector in India are

- Low share of organized retailing
- Falling real estate prices

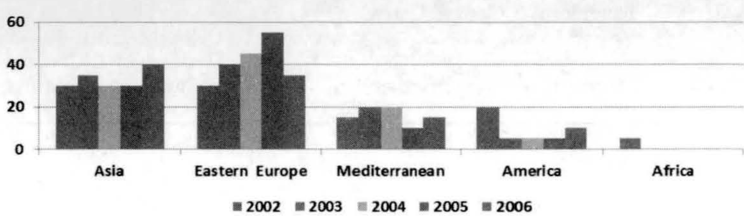
- Increase in disposable income and customer aspiration
- Increase in expenditure for luxury items

6.6 *Indian Retail and Global Competitiveness*

The Indian retail sector is continuously growing and making a mark in the global arena. The growth in economy in general and retail sector is beckoning global players all over the world and their estimation and predictions about the expected surge in the retail arena are supported by various reports and studies.

Ministry of Commerce and Industry reported that India's merchandise exports grew by 23% to touch record levels of US$ 102.7 billion during the financial year 2005-06 and it is estimated to cross US$ 120 billion by FY 2006-07 (Roy, 2007). India had emerged as the most attractive retail investment destination on Global Retail Development Index (GRDI) 2007 for the third consecutive year but regulations on FDI are acting as a deterrent and it has finally yielded the top spot to Vietnam on Global Retail Development Index (GRDI, 2008). This is due to its robust 25 to 30% growth in modern retail formats last year, as opposed to 13% for both China and Russia.

The Asian markets are hugely underdeveloped and lag behind as regards infrastructure, technology and human resource is considered. The stagnation in the growth rates of the American and European economy and the opening up of the economies through liberalization and globalization has shifted the focus to these countries where all big retailers are making an attempt to enter. In 2006 the attractiveness of the Asian market was the highest vis a-vis the rest of the world at 40%



Source : AT Kearney (2006) and AT Kearney GRDI (2008)

Figure 4
Percentage of Markets Share on Radar to Consider

Table XVII list the various important countries of the world in terms of Global Retail Development Index which is calculated by taking various variables under consideration, i.e. country risk, market attractiveness market saturation and time pressure involved. India tops the list followed by Russia and China. It is noticeable that there are various Asian and African countries in the list. While global retailers have already entered China and making an attempt to enter Tier II cities after exploring Tier I cities, they are grappling with FDI regulations in case of India. Woolworth's, Wal-Mart, Supervalu, Euroset and Starbucks all have made clear their intentions of making an entry in the India Retail market and join the existent names like Lacoste, Chanel, Swatch and Omega etc.

Table XVII
The 2007 Global Retail Development Index

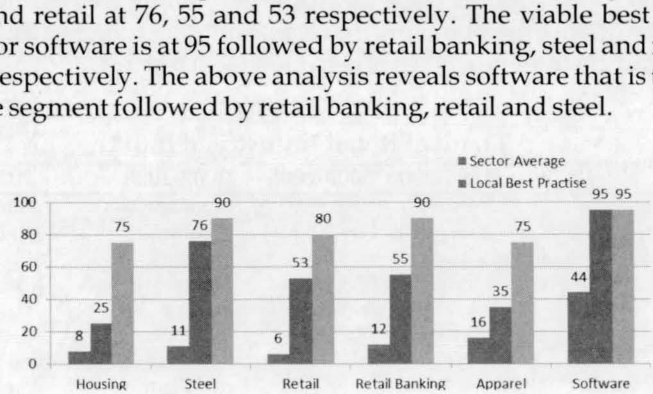
2007 Rank	Country	Region	Country Risk	Market Attractiveness	Market Saturation	Time Pressure	GRDI score
		Weight	25%	25%	30%	20%	
1	India	Asia	67	42	80	74	92
2	Russia	Eastern Europe	62	52	53	90	89
3	China	Asia	75	46	46	84	86
4	Vietnam	Asia	57	34	76	59	74
5	Ukraine	Eastern Europe	41	43	44	88	69
Legend			0=low risk	0=low attractiveness	0=saturated	0=no time pressure	
			100=High risk	100=high attractiveness	100=not saturated	100= urgency to enter	

Source : Euromoney (2006), World Bank, Global Competitiveness Report (2005-06) and A.T. Kearney (2006, 2008)

An ICRIER study has found that retailing (US$ 180 billion) contributes to 10 per cent of GDP and employs 7% (21 million) of the workforce. According to AT Kearney (2006, 2008), India is given the top ranking as the next foreign investment destination, as markets like China become increasingly saturated. India is the 4th largest economy as regards GDP (in PPP terms) and is expected to rank 3rd by 2010 just behind US and China (Sarwarm, 2006). Over the past few years, the retail sales in India are hovering around 33-35% of GDP as compared to around 20% in the US.

The Indian Retail Industry is the largest industry which contributes to a sizeable 10% of the country's GDP and 8% of employment. Although the figures appear impressive it is important to compare them with other countries in a globalized scenario where all economies are integrated.

Figure 5 depicts the productivities of various sectors. The sector average is highest for software at 44, followed by apparel and retail banking at 16 and 12. In terms of local best practice software is at 95 followed by steel, retail banking and retail at 76, 55 and 53 respectively. The viable best practice potential for software is at 95 followed by retail banking, steel and retail 90, 90 and 80 respectively. The above analysis reveals software that is the most productive segment followed by retail banking, retail and steel.



Source : Palmade (2007)

Figure 5
Comparison of Sector Productivities-India Productivity, US=100

6.7 *Opportunities and Challenges*

The entire retail set up of India is undergoing structural changes where the organized sector is making an attempt to claw in the market which is predominantly dominated by the unorganized sector.

The opportunity for entrepreneurs mainly lies in exploiting the changes arisng from the structural shift in the demographics and consumer prefernces in India and also exploring the newer technologies in the form of e-retailing etc.

The Challenges be faced as the boom might not be prolonged over a long period and dearth of professionals in the field as compared to fields like IT, BPO, Management might not help the cause. Providing personalized services service to the consumer who is now regarded as the king might furthere scalate the cost by 15% and in the present highly competitive arena it makes the job even tougher. Low standards and facilities regarding infrastructure, restrictions on FDI, procedural and bureaucratic bottlenecks as compared to countries like China, USA, UK , Japan might act as a deterrent in attracting global retailers. Changes are required to be made in the labor laws in India which are inflexible and rigid leading to constanat lockouts and strikes. The trend of retail industry is discussed below.

In Table XVIII we can see that the entire trend of retailing in India is becoming global. With the liberalization and opening up of economies in 1991 there has been a distinct change in the consumer profile which is well reflected in the consumption and expenditure pattern as shown above. Though, the growth of sales have become negative in 2007 from very high in 1995-2000, the share of organized retail has become high in 2007 as compared to low in 1995-2000. Also the area of retailing has become global from being concentrated in metros. The competition has also become intense with both national and international retailers entering in 2007 as compared to very few competitors a decade back. The fruits of retailing were earlier available only to the urban upper but now the retail giants are trying to encompass the masses and customer profile has become global rural

Table XVIII
Trend of Retail Industry in India

Duration	1995-2000	2000-2005	2002-2006	2007
Sales growth	Very high	High	Moderate slow	Slow to negative
Share of organized Retailing in Total Retailing	Low (<1%)	Low (1-5%)	Medium (5-40%)	High (>40%)
Area	Metros	Metros and A-class cities	Metros and non-metros	Global
Competitors	Very few	Moderate	Many direct and moderate indirect competition	Moderate direct and many indirect competition
Customer profile	Urban upper	Urban upper and upper middle class	Urban and middle class	Global rural

Source : Gopal (2005)

VII. Hypotheses Testing

The testing of various hypotheses in Table XIX reflects that in all cases that the Alternative Hypotheses (Hα) is accepted and Null Hypotheses (HO) is rejected. It shows that there is a positive relation between the movement of Organized and Unorganized Retail Sales, FII's and Organized sales, FII's and Unorganized Sales, BSE Index and Total Retail Sales, BSE Index and Organized Retail Sales, BSE Index and Unorganized Retail Sales. As Retail sales are affected by FII and movement of BSE Index due controls have to be exercised on the Retail Industry. Withdrawal of FII and FDI as was the case in the global recession might seriously hamper the prospects of Retailing in India. A large segment is unorganized and it is the duty of the government to ensure that all efforts are made to safeguard their interests and the policies are not devised in the interests of the corporate bigwigs.

Table XIX
Hypotheses testing through Student t-Test

Hypotheses Tested		Result
(I)	**Testing of Hypotheses to test Relation between movement of Organized Retail Sales and Unorganized Retail Sales**	t = 13.72
	Null Hypotheses (HO_1)= There is no relation between the movement of Unorganized Retail Sales and Organized Retail Sales	Degree of freedom For v=6, $t_{0.05}$ = 1.943
	Alternative Hypotheses ($H\alpha_1$)= There is a relation between the movement Unorganized Retail sales and Organized at Retail Sales	The calculated value is more than the table value. Hence Null Hypotheses (H_0) is rejected and Alternative Hypotheses (Hα) accepted that there is relation between the two variables.
(II)	**Testing of Hypotheses to test Relation between movement of Foreign Institutional Investment (FII) and Organized Retail Sales**	t= 4.53
	Null Hypotheses (HO_2)= There is no relation between the movement of Foreign Institutional Investment (FII) and Organized Retail Sales	Degree of freedom For v=10, $t_{0.05}$ = 1.812
	Alternative Hypotheses ($H\alpha_2$)= There is a relation between the movement Foreign Institutional Investment (FII) and Organized Retail Sales	The calculated value is more than the table value. Hence Null Hypotheses (H_0) is rejected and Alternative Hypotheses (Hα) accepted that there is a relation between the two variables.
(III)	**Testing of Hypotheses to test Relation between movement of Foreign Institutional Investment (FII) and Unorganized Retail Sales**	t= 2.22
	Null Hypotheses (HO_3)= There is no relation between the movement of Foreign Institutional Investment (FII) and Unorganized Retail Sales	Degree of freedom For v=10, $t_{0.05}$ = 1.812
	Alternative Hypotheses ($H\alpha_3$)= There is a relation between the movement Foreign Institutional Investment (FII) and Unorganized Retail Sales	The calculated value is more than the table value. Hence Null Hypotheses (H_0) is rejected and Alternative Hypotheses (Hα) accepted that there is a relation between the two variables.

(IV) **Testing of Hypotheses to test Relation between movement of Total Retail Sales and BSE Index**	t= 117.11
Null Hypotheses (HO_4)= There is no relation between the movement of Total Retail sales and BSE Index	Degree of freedom For v=13, $t_{0.05}$ = 1.77
Alternative Hypotheses ($H\alpha_4$)= There is a relation between the movement of Total Retail Sales and BSE Index	The calculated value is more than the table value. Hence Null Hypotheses (H_0) is rejected and Alternative Hypotheses ($H\alpha_4$) accepted that there is a relation between the two variables.
(V) **Testing of Hypotheses to test Relation between movement of Unorganized Retail Sales and BSE Index**	t= 6.11
Null Hypotheses (HO_5) = There is no relation between the movement of Unorganized Retail Sales and BSE Index	Degree of freedom For v=10, $t_{0.05}$ = 1.812
Alternative Hypotheses ($H\alpha_5$)= There is a relation between the movement of Unorganized Retail Sales and BSE Index	The calculated value is more than the table value. Hence Null Hypotheses (H_0) is rejected and Alternative Hypotheses ($H\alpha$) accepted that there is a relation between the two variables.
(VI) **Testing of Hypotheses to test Relation between movement of Organized Retail Sales and BSE Index**	t= 97
Null Hypotheses (HO_6)= There is no relation between the movement of Organized Retail Sales and BSE Index	Degree of freedom For v=10, $t_{0.05}$ = 1.812
Alternative Hypotheses ($H\alpha_6$)= There is a relation between the movement of Organized Retail Sales and BSE Index	The calculated value is more than the table value. Hence Null Hypotheses (H_0) is rejected and Alternative Hypotheses ($H\alpha$) accepted that there is a relation between the two variables.

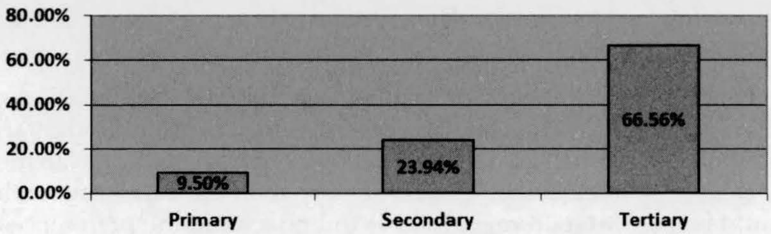
Source : Data Compiled and Calculated from RBI Monthly Bulletin, (September 2009), India Biz New Retail Report (December 2008) and CSO, NSSO, and Technopak

VIII. Conclusion and Recommendations

It is notable that retail contributed 10-11% of GDP (Karat, 2007) and is a vital source of finance to the state exchequer but it suffers from serious capital shortage to meets it's infrastructural, management, technology, human resource requirements. The 96% of the market is unorganized which does not have sufficient finance. Loans at subsidized rates and concession in tariff policies should be made available to enable to face the competition with global retail giants. Also efforts should be made to absorb them in the organized sector as individually they would be wiped off by huge retailers and collectively they would be in a better position to face the global onslaught.

The wave of liberalization and globalization has swept the entire globe and restrictions on FDI in retail might be removed sooner or later. However it is important to ensure that the economy is well prepared for it. FDI should be opened only in phases. To support the small retailers they should be given subsidies in tax and finance and other sops so that they get effective protection. The functioning of the retail giants should be subjected to strict regulations and monitoring to prevent predatory pricing and below cost sales. Also the cost of entry should be high for them to ensure that local retailers are in equal footing with them. Retail in India employs 20 million urban workers and 12 million rural workers (Karat, 2007). Their interest should be duly safeguarded in this regard. A Parliamentary Standing Committee headed by Murli Manohar Joshi in its report on 'Foreign and Domestic Investment in Retail Sector' refuted claims about the positive vibe of FDI in retail and advised a blanket ban on FDI. It also opposed the entry of domestic bigwigs in retail sector as it might lead to unemployment[10].

The figure below gives a synoptic view of the contribution to various years over the last seven years. The share of employment in various sectors is as follows: Agriculture 60%, Industry 28% and Services 12%[11]. It shows the current lopsided state of affairs of our economy where the sector employing the largest number of people has the minimum contribution to GDP and vice versa. It is necessary to expedite the manufacturing sector which has been stagnant in the recent few years. Retail sector also depends on manufacturing as it sells what it produces. Concentrated efforts should be made by the government to revive it.



Source : Economic Survey 2007-08

Figure 6
Average Percentage Contribution to Total GDP (2000-2007)

A major problem faced by retailers is absence of infrastructural facilities. To compete at the global scene with countries like USA, UK, Japan, China and Russia it is imperative to ensure development in infrastructure for which huge influx of capital, initiation of public-private partnership etc is required. Effective monitoring and inspection is also necessary to ensure international standards in respect of quality is maintained for which standard quality, quality regulation and certification bodies are required to be set up at different levels. Also with 96% of the market being unorganized it is necessary to address the problem at grass root levels. Involving co-operatives might prove to be helpful as they can provide the required infrastructure in the form of capital, infrastructure, cold storage, supply chains, warehousing etc. Supply chains should be so designed that timely delivery of goods is done for which an industry backed syndicate that can invest and provide efficient supply might be the solution. The organized sector has entered retail in a full-fledged manner only recently. Their entry has also led to the introduction of modern techniques, IT and other technology. Trained professionals are required for these and to overcome the shortage large- scale training and development programs have to be undertaken for solving the problem. The legal framework also regarding retail also needs to be so resolved. Standardized laws need to be implemented regarding Standards Weights and Measures Act, Interstate rules and regulations etc. With the wide divide between organized and unorganized retail a cess needs to be imposed on large format retailers which can be utilized for uplifting the smaller retailers in order to bridge the gap.

The rural market accounts for 64% of the country's consumer base[12] and it is in the best interest of the retailers to devise schemes and plans to cater to this particular section and encompass the rural areas in its schemes and plans of development and expansion as per Technopak estimates, 92% of these investments are slated for urban areas and 8% for rural[13] which makes it necessary for the retailers to redesign their investment plans according to the ground realities.

With retail contributing 14% of GDP and 8% of employment retail sector should be granted an international status so that it can avail the benefit of financing and other incentives of the government. For the development of this vital segment the demands of granting it the status of an Industry should be given due consideration as it is expected to be the next centre of boom after IT Industry in India.

However most importantly the manufacturers and retailers have to realize that consumer is the king. It is consumer oriented market and right from the inception of a product idea to the development of marketing plan the needs and desires of the customers should be supreme. Relevant consumer indexes should be prepared on regular basis to understand the preferences of the customers as is the practice in developed countries. It is necessary to develop a better understanding of the consumers and make relevant adjustments for the same.

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