

Issues and Challenges of E-Retailing in India - A Study

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Abstract: *Indian Retail Industry is ranked among the ten largest retail markets in the world. The attitudinal shift of the Indian consumer and the emergence of organized retail formats have transformed the face of E-retailing in India. With the sign of re-emergence of economic growth in India, consumer buying in retail sector is being projected as a key opportunity area. As a consequence, Indian corporate houses are refocusing its strategic perspective in retail marketing with the idea to use resources optimally in order to create core competence and gain competitive advantage. The paper theme is to analyse finer strategic perspective for the retail sector in India and suggest measures so that the corporate strategists could incorporate the same both qualitatively and quantitatively.*

Keywords: Retailing, GDP, Supply chain and E-retailing

Introduction

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 will help the India Retail Industry to grow faster. Indian retail is expected to grow 25 per cent annually. Modern retail in India could be worth US\$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US\$ 16.7 billion business, growing at over 20 per cent per year. The future of the India Retail Industry looks promising with the growing of the market, with the government policies becoming more favourable and the emerging technologies facilitating operations. The word retail is derived from the French word retailer, means to cut off a piece or to break bulk. Therefore, a retailer is a dealer or trader who sells goods in small quantities. E-retailing is the final step in the distribution of products, for consumption by the end consumers. It consists of all activities involved in the marketing of goods and services directly to the consumers, for their personal, family or household use. This excludes direct interface between the manufacturer and institutional buyers such as government and other bulk customers. Retail is India's largest industry. The sector has witnessed an immense growth in the last few years. 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, 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.

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Any remaining errors or omissions rest solely with the author(s) of this paper

Objectives of the study

1. To study the major challenges and emerging e-retailing formats in India.
2. To study the benefits of modern trade to Indian Economy.

This is purely conceptual study which has been based on the secondary sources collected from the text books, articles, research papers and internet.

Evolution of the Indian Retail Market

E-retailing goes back to centuries; it started as a very primitive business but today has grown tremendously. First people were doing businesses with their neighbours. Goods were exchanged between them. Gradually people began to collect themselves to a given neighbourhood, which provides a geographical place to do the exchange. This not only increases the exposure of a given good but also helps a lot towards the development of a more formalized system. Gradually, a few more start to get together to a place that in turn creates a need for a common place. Later this common place was called a fair. With the passing of time the number of people doing businesses in a given fair increased, issues like security, transportation becomes a matter of concern. This semi-formalized system then gave birth to small-scale groceries, where people start to provide more combinations in their own neighbourhoods. Then came the issue of choice in given grocery, the choices the customer had was limited, this was the beginning of the concept of “everything under one roof”. As time passes, joint family changes into nuclear family. There too both members started earning which resulted into a new way of lifestyle. From then instead of mom-and-pop type of stores organized retail stores came into existence.

Table 1: The 10 Major Retailers in India

Sl.No	Retail Chain	Founded	Revenue (INR in millions)	No. of Formats	No. of Stores
1.	Future Group's	1997	32,360	20	>1085
2.	RPG (Spencer's)	1996	167,160	4	>900
3.	Tata Group (Trent)	1998	29,85,070	9	443
4.	ITC (Wills, Choupal Sagar)	2000	2,43,600	3	323
5.	Reliance Retail	2006	16,58,060	13	>700
6.	Bharati Retail	2007	N.D	1	7
7.	K Raheja (Shoppers Shop)	1991	1,20,690	13	701
8.	Landmark	1998	11,940	10	>112
9.	Vediocon	1985	15,000	3	701
10.	Aditya Birla Retail	2007	11,46,680*	2	602
11.	Vishal Retail	1986	10,130	3	>151
12.	Subhiksha	1997	23,000**	4	>1500

Source: *Indian Retail Report 2015-16*

**Group Revenue **Estimate*

Challenges Faced By Retail Sector

Supply Chain

Finance Minister Pranab Mukherjee had in his 2010-11 budget speech said “... the second element of the strategy relates to reduction of significant wastages in storage as well as in the operations of the existing food supply chains in the country. This needs to be addressed.” E-retailing Format in India is the seventh largest country (land mass: 3.2 million sq. Kms.) with

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varying climatic conditions over the country. Taste and preferences of people vary strongly all across the country. Catering to people in 35 states and union territories is equivalent to catering to people in 35 countries, leading to complexities in merchandise/ inventory management.

Infrastructure has been developing at a rapid pace over the past decade but has still a significant ground to cover; the planned expenditure of c. US\$ 1 trillion in the 12th five year plan will help bridging this gap. There exists a need for retail to concentrate on developing a strong back-end support especially for perishable products to help reduce wastages which is estimated to be at 40 percent of national produce.

Channel Conflicts

Globally, retailers maintain a direct relationship with their suppliers. Due to the complex taxation structure and geographic spread of the country, most FMCG companies have developed regional distribution and re-distribution network. Cutting out the distribution network will hurt operating structures of distributors, who as an industry body in the past have opposed FMCG companies selling directly to retailers. There exists a need for a retailer to work closely with the suppliers in an attempt to shorten the supply chain network resulting in saving time and money.

Private Labels

Location and Rental

Finding the right location with the right rental for stores has been a challenge for all retailers. Rent forms a large portion of the total expenditure (c. 6 to 11 percent of the revenue) in retailer's income statement and can more often than not convert a profitable store into loss making. The challenge for a retailer would be to find the right location for their stores either in malls or as a standalone store to be able to generate enough footfalls. A retailer could evaluate option of setting up a property development/ management arm that would be able to source/ develop stores at lower rentals.

Unique Indian Customer

The Indian consumer experiencing modern retail has now warmed up to this idea. Buying habits have still not changed, where people prefer to buy most of the fruits and vegetables on a daily basis. The Indian consumers have a strong preference for freshly cooked food over packaged food mainly attributed to dietary patterns, poor electricity supply, low penetration of refrigerators and a family structure where one of the primary roles of the housewife is feeding the family. There is also an impact on the basket size because of non-availability of personal transport facilities, due to which the consumers prefer to buy smaller quantities from stores conveniently located near their homes.

Regulatory

Currently, indirect taxation structure is complex in India with varying tax rates, multiplicity of taxes and multiple tax enforcement authorities. Goods and Service Tax likely to be implemented in 2011 will replace a host of levies like excise, sales tax, value-added tax, entertainment tax and luxury tax. This is likely to have an impact on the supply chain model and cost structure of distributive trade, followed by consumer packaged goods companies.

Opening a new store requires a lot of licences, which have to be obtained from different government departments leading to considerable lead time in opening up of the stores. A push

has been made by existing retailers to get the government to have a single window clearance for getting all the licences at one place to speed up the process.

Private Labels

Private labels enable retailers to offer products at a better price point attracting footfalls to the store. This in turn not only translates to better margins by cutting out middlemen but also enhances retailers bargaining power with supplier. Penetration of private labels in emerging markets is expected to be about 6% of retail sales (Source: India Retail Report) which in India is estimated to be about 10 – 12%. The concept is still at a very nascent stage in India given the age of modern retail in India. Few players have introduced private labels in the category of Food & Grocery, Apparels, Consumer Durables etc. but a reservation still exists towards acceptance of these products with the Indian consumer. Private labels offering competitive pricing proposition has helped to generate interest and a slow but steady acceptance from the Indian consumer.

E-Retailing Formats in India

Malls

The largest form of organized e-retailing today located mainly in metro cities, in proximity to urban outskirts. Ranging from 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Pyramid, and Pantaloon.

Specialty Stores

Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

Discount Stores

As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non-perishable goods

Department Stores

Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. Further classified into localized departments such as clothing, toys, home, groceries, etc. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India and even has its own in store brand for clothes called Stop.

Hyper marts/Supermarkets

Large self-service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified in to mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from of 3,500 sq ft to 5,000 sq ft. having a strong focus on food & grocery and personal sales.

Convenience Stores

These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium

MBO's

Multi Brand outlets, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros.

Benefits of Modern Trade to Indian Economy

Reducing wastage: Managing Wastage in India's Food Supply Chain is Imperative

Empirical studies in emerging market economies have shown that the growth of organised retail results in the following:

- Technology transfer to reduce wastage in the food supply chain
- Improvements to the quality of produce available in local markets since it creates local distribution channels for produce
- Benefits to local economy since local suppliers are engaged in it
- More competitively priced products for all consumers
- Fresher produce with higher levels of hygiene and quality
- Produce with a longer shelf-life

Like other developing economies, India's supply chain is fairly one-dimensional and there is very little value-added activity, since distribution remains fragmented and unorganised.

Employment: Retail can boost employment in India.

FDI in retail will generate employment since new entrants will need to hire staff for operations. Most individuals currently employed by unorganised retail players do not receive healthcare, educational or other benefits. Once individuals are absorbed in retailer operations, they can access more equitable wages and benefits. The effect of modern trade will be most apparent at the bottom of the population pyramid, as it will unleash opportunities such as non-agricultural employment for rural youth and better quality of living for the existing agricultural society. Retail can be an enabler for the unemployed in urban, semi-urban and rural India.

Sourcing: Retail Can Strengthen India's Position as a Sourcing Hub to the World

Global retailers have already been sourcing products from India. Their presence in the Indian market will enhance exports from India, as they develop and leverage relationships with local suppliers. The extent of sourcing from India will increase when global retailers are allowed to operate in the Indian market.

Consumers: Choice, Improved Quality Of Life, Better Prices Mean More Satisfied Consumers

The growth and development of modern trade ushers in several benefits for consumers, some of which include better prices, increased product choice and an improved quality of life. Consumers are experimenting with products, brands and categories, and are trading up in their purchases, wanting to use products of good quality. Modern trade retailers, on their part, will also help consumers understand how to use products (e.g., skin creams, consumer durables and

electronics, etc.). This ongoing 'education' from retailers to consumers will enable buyers to improve their knowledge and understanding of products and product benefits. Modern trade will enable consumers to benefit from the following:

1. Price rationalisation.
2. Lifestyle parity
3. Better quality
4. A zero tolerance parity for defective products

Government exchequer: Modern Trade Players Are Tax-Compliant and Large Tax Payers

The organised and unorganised retail sectors differ not only in their size and infrastructure but also in terms of their contribution to the government exchequer. Collecting revenue from the unorganised retail sector is a challenge for authorities:

- Kirana stores and kiosks are located across urban and rural India.
- Street vendors and rural outlets do not have a postal address.
- Most people who own and operate these stores or kiosks do not have basic education.

Farmers and producers: Farmers Will Become integrated in the Food Supply Chain

A major challenge in India's food landscape is the farm-to-fork supply chain, characterised by high inflation levels, several levels of intermediaries (eg., agents, middlemen), high wastage levels, etc. Total food inflation remains a concern revealing shortcomings in distribution and marketing systems. Farmers are not being paid fair market value and consumers are paying high prices. Several studies have indicated that India can become the food basket to the world if it addresses fundamental issues in its food supply chain. These include high inflation, inadequate supply and delayed freshness. The majority of the Indian population resides in the rural areas. Due to issues like long distances, inadequate infrastructure and the absence of a robust supply chain and logistics, the freshness and overall quality of the food is affected.

Small Vendors: Small Vendors Can Also Be Integrated Into Modern Trade

Most headload and pushcart vendors require credit to fund their working capital. However, small vendors are often unable to access credit due to issues pertaining to high interest rates and lack of access to credit societies. Credit is required to fund daily and longer-term working capital needs, smooth out sales and seasonal fluctuations and also fund family needs. Some companies are embarking upon the following initiatives that involve working with headload and pushcart vendors:

- Providing marketing and branding assistance
- Providing back-end assistance to small vendors
- Offering microfinance as a means to upgrade operations.

Conclusion

There is very huge potential for the growth of organized E-retailing in India. By following some of the strategies it can rise tremendously and can reach each and every nock and corner. Open communication should be established between functional departments. A balance should be maintained between brand building and promotion. Non-marketing factors like gas prices, weather etc. should be avoided and new schemes should always be launched. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial

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investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

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