

Challenges and Opportunities Faced by Organized Retail Players in Nagpur City



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The Indian retail industry has got ample opportunities to flourish upon though there are number of challenge factors which they need to overcome This study revolves around the opportunities and challenges faced by organized retail players in Nagpur The biggest challenge that the organized retailers face are the stiff competition from the unorganized players and also competition between organized players The opportunities which organized retail players see in Nagpur is the growing upper middle class and upcoming big projects. The study shows mitigation of challenges and leveraging on opportunities to have a win win situation for all.

Key words: Organized, retailing, unorganized retailing

1. Introduction

The Indian retail sector is the largest sector among all the industries accounting nearly over 10% of India's GDP and more than 2.5 million employment opportunities. The retail sector is one of the fastest growing sectors in India with several players entering the market. But not everyone could taste the success because of huge capital investments that are required to compete with other similar companies.

The Indian retail sector has undergone tremendous changes in last decade. It has witnessed huge improvements in political, social and economic environment which has directly or indirectly affected the consumption pattern.

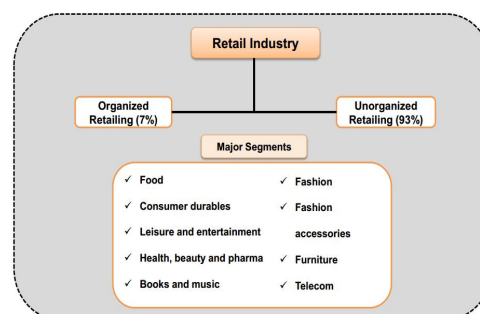
The modern retail sector in India is featured with sprawling shopping centers, multiplex –malls and huge complexes offering food, entertainment and shopping all under one roof, the entire concept of shopping has been altered in terms of the formats and the mindset of consumers, creating a revolution in Indian shopping.

The term retailing is the transaction between the seller and consumer for personal consumption .It does not include transaction between the business or when the purchase is for re selling. The retailers purchases goods from the manufacturer and sell the goods to end consumers for final consumption for a profit. The retailer is last point in the supply chain and performs various important functions like providing valuable information to manufacturer about the product and creates various utilities for the consumers.

Retailing itself can be further divided into organized and unorganized sector.

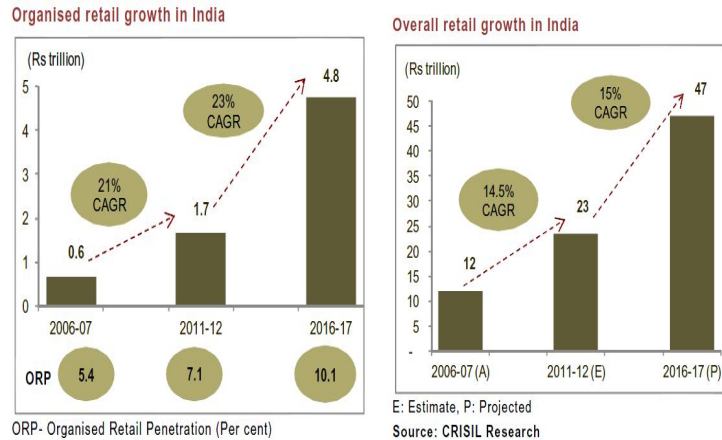
Organized Sector: The total concept and idea of shopping has undergone a drastic change in recent years. Modern retailing has entered into the Indian retail market. The growth of organized retail sector is a result of higher growth in Indian economy, which has resulted in greater purchasing power among the Indian population. Factors like knowledgeable consumers, huge investments by venture capitalist and entry of retail giants have also contributed to the growth of Indian retail sector. However the government of India has laid few restrictions because of which there is a hindrance in getting a license to start a retail outlet.

Unorganized sector: In India the unorganized sector remains dominant as it enjoys many advantages. The major advantage is the low operating cost and less investment required as it directly creates an impact on the pricing of the products. The unorganized retailers are offering great opportunities for modern retailers for opening stores in rural areas.



There is a huge change in life styles, income and demographic variables in Indian democracy in recent times. This has resulted in huge impact on organized retailing. Indian retailing is expanding and is expected to reach at US\$637 billions by 2015. The Indian retail industry is playing vital role in the economic growth of the country. The shopping concept is moving in and around hypermarkets, supermarkets, and specialty stores and in other formats.

The factors like changing life style, constraint of time, heavy traffic on the roads, increase in disposable income has led the way for new types of retail formats. Getting the right product at right time at lowest possible cost is an advantage of consumers in the edge of retail transformation.



Organized retailing in India is still finding its place to fit in. Though the organized retailing trade makes up over 70-80% of total trade in developed economies but in country like India the share is very minimal.

2. Literature Review

Retail marketing has become a buzzword in modern business scenario as they are playing an important role in restricting the Indian economy. The innovative business practices and trends evolving in retail sector like FDI, franchise arrangements, increased customer focus, new retail formats, visual merchandising, Automated vending machines and e-retailing has resulted not only led to drastic growth in retail business but also provided consumers with a global shopping experiences at their conveniences. The retail sector in India needs to cope up with the existing political set ups, social preferences and objectives, existing economic and legal conditions and also the level of the available technology is the need of the hour. They need to develop their own indigenous strategies and do SWOT analysis to be successful in economies like India.

The Retail market in India has undergone a drastic change in last decade. The organized retail market is expected to grow at 25-30% annually. Retailing is contributing 10% to our GDP and largest source of income after agriculture. The India retail market is divided into organized and unorganized segments

3. Challenges Faced by Organized Retail Sector in India

In India the organized retail sector is at very nascent stage featured with small number of players trying to create a new paradigm. In order to grow substantially the Indian retail sector has to attract leading Indian and foreign players who can invest more.

In the era of globalization and liberalization a major challenge to the organized retailers are the knowledgeable customers. The main reason behind this is that the consumers are aware of his/her value of money and their purchasing power. In today's consumer market the product quality and service quality are two major mantras the retailers are looking forward as these consumers needs more and more for less.

Technology remain a biggest challenges faced by the organized retail sector mainly due to the factors like availability, feasibility and adoption of technology. The successful retailers are more customers centric who dwell upon technology to gain advantage in the market place. Major functional areas like understanding the customer preference, tracking customers, enterprise management tools and so on.

The major setback for the organized Indian retail sector is opposition of government to FDI. FDI allows foreign players to operate in India. This would result in healthy competition and ultimately bringing down the prices and thus making the economy stronger.

An inefficient distribution channel is another major setback for the organized retailers. The main task of any retailer is delivering the right goods at the right place and at the right time. The organized retailers are under great pressure to improvise their supply chain system and distributions channels to satisfy their customers and to achieve a level of quality.

To understand the customer behavior and their brand loyalty is major challenge faced by the organized retailer. There are many factors that influence the loyalty and commitment of a customer like product value and quality, their satisfaction etc. The retailers can increase their profit by retaining the customers and thereby decreasing the rate at which customer defect.

There is a huge competition from the unorganized sector that poses a big challenge to the organized retailing. The traditional retailing is century old and enjoys various benefits like low cost, sole proprietorship, less labour cost and less tax to be paid. Unorganized sector is more customers friendly and offers benefits like credit facilities, home deliveries and also adds personal touch to the transaction that is highly impossible in organized retailing.

The single most important factor that challenges organized retailing is the cost of land or the rental rates. As the store location is an important factor to determine the success of the retailers, the cost of land or building plays a major role. The rules and regulations imposed by the government is also very tedious and cumbersome. Thus the organized retailers have to bear the pain and pass on the high cost to the customers.

Infrastructure in retail refers to proper roads, parking facilities, warehouses and proper connectivity. The organized retailers face a heavy loss due to lack of proper infrastructure. There is improper power supply in many part of the country. Organized retail outlets use large volume of electricity and thus with absences of power they would be lifeless. In order to ensure regular flow of work they need to have huge power backups. This would in turn add on to the cost.

Last but not the least is the cost of operation. Since there is no proper structure available for the organized retailers in India they cannot concentrate on their core competency like other counterparts do in developed nations. The organized retailer in India needs to concentrate in area like supply chain management, logistics, sourcing and warehousing, merchandise management and forecasting of trends etc. High cost of operation arises due to high labour cost, high rental, high cost of maintenance high taxes etc. Apart from above mentioned challenges the organized retailers needs to focus on Indian consumer attitude and buyer behavior and also concentrate on rural and urban consumption pattern.

4. Opportunities for Organized Retail Sector in India

There are many factors which act as opportunities for the organized retail players and has a positive impact. As Indian economy is the fourth largest economy in the world and third largest in terms of purchasing power parity. This booming economy is one of the major factors of opportunity for the organized players. The higher bargaining power of the retailers with the suppliers is another opportunity for organized retailing. Big retailers purchase in bulk and enjoy low prices. Large retailers operate on low margins and reap the benefit of economies of scale.

In house brands or private labels are introduced by the retailers to increase the sales and thereby increasing the market share. Private labels are used by the retailers to differentiate themselves from the competitors. Another big opportunity for the Indian retailers are the changing age profile of spenders. India is a very young nation when compared to other countries. This would result in high level of spending on leisure activities and also the consumption level would go up on a higher side. It would also result in higher investment in economy and generate trade opportunities. There is a proportionate increase in spending of the general public also in recent years. Consumer spending

The increased trend of impulsive shopping is the major source of opportunity for the organized retailers. An impulse buy is an unplanned purchase, a buying decision taken after seeing the merchandise. This kind of buying is usually seen in youngster and would be a big boon for the organized retailers as the majority population in India is young.

The tremendous growth happening in tier II cities like Bhopal, Ahmedabad, Nagpur, Hyderabad, Lucknow, Jaipur etc is a biggest opportunities for the organized retailers. Also the fast growing middle class population is major boost for the organized retailers. Disposable income of this segment is expected to be around 8.5 % pa. in 2015.

Nagpur is a major destination in Vidharbah region of Maharashtra and the winter capital of Maharashtra. It has a major contribution for the development of the region. Since its center of India the city enjoys various benefits .Its population are multi lingual and multi cultural. People across central India settle down in Nagpur for various reasons like higher education, job placement, business opportunities etc. It's also becoming a tourist destination.

The SWOT analysis of the India retail sector would give us a clear picture about the current status with the opportunities and threats.

Strength of India Retail Sector is as Follows

- The India retail sector has a major contribution to the Gross Domestic product of around 33-35%
- There is high potential for the organized player as the Indian retail sector occupies only 3-5% of the total retail sector
- The retail sector is high employment generator
- Low labour cost
- Technology intensive Industry
- Rising income of people
- Changes in consumption pattern
- Availability of land
- Urbanization

Weakness of Indian Retail Sector

- There are many policy related issues a sector lacks industry status and there are numerous licenses and permits required for registration of the company
- Lack of Skilled labour
- Double taxation system

- Poor supply chain management
- Lack of adequate basic infrastructure facilities
- Limited consumer insight

Opportunities for Indian Retail Sector

- There is a huge potential for Investment
- It is one of the fastest growing sectors in India
- The growth rate of the sector is very attractive
- There is a healthy competition among the players
- Rural retailing

Threat of Indian Retail Sector

- Political and social issues
- Government policy on FDI
- Inventory Management system is poor
- Competition among big players
- Inflation

The research paper focuses on the opportunities and challenges faced by the organized retail players in Nagpur city. The main objective of the paper was to identify the factors that are influencing the growth of retail players in Nagpur city. The study also includes the impact of these factors on different product segments.

5. Data & Methodology

The data for the research was collected from a sample of hundred managers of organized retail outlets and hundred unorganized retail outlets. The sample retail outlets were selected by convenience sampling methods. The respondent were given a structured questionnaire and were asked to rate each opportunity and challenges factor on seven point Likert scale. The study was descriptive as well as exploratory in nature as the emphasis was on identification of factors that would affect the growth of Indian retailing and analyzing the extent of impact. Primary data was collected directly from retailers to get the insight of the challenges faced by the retail industry. Secondary data was collected from various journal, industry reports, magazines, newspapers and websites.

Analysis & Interpretation

The opportunity factors affecting the Organized and Unorganized retailers in Nagpur city.

Factors	Organized retailers	Un Organized Retailers	F value	p-value
Nagpur's fast developing infrastructure	4.64	5.31	16.194	0.00
Increasing number of shopping malls	4.74	4.35	3.163	0.077
Nagpur's position as upcoming in central India	4.47	5.01	8.298	0.004
Nagpur 's multi cultural population	5.46	6.01	16.653	0.000
Nagpur as Tourist destination	4.58	5.03	4.782	0.030
Nagpur 's growing middle class segment	6.00	5.69	3.846	0.051
High bargaining power with suppliers	3.35	1.73	96.064	0.000
In house branding of goods	3.21	3.14	0.092	0.761
Proportionate increase in spending with earnings	5.28	5.36	0.190	0.663
Growing number of educational institutions	5.26	5.43	0.823	0.365
Large earning young customers	5.81	4.27	71.343	0.000
Increase in trend of impulse buying	4.71	3.72	32.263	0.000
India's growing economy	5.27	5.49	2.387	0.124

The biggest opportunity that the organized retailers in Nagpur city see is the growing middle class followed by large number of earning young customers. Nagpur city is a multi-cultural city as it has people all over the central India like Gujaratis, mardwadies, Punjabis and sindhis hence there is proportionate increase in spending with the earnings and this adds to the opportunity for the organized retailers. The unorganized retailers on the other hand see opportunity in Nagpur city having multi cultural people followed by growing middle class people, large number of educational institutions coming into Nagpur and proportionate increase in spending with earnings. Both the organized and unorganized sectors feel that the higher bargaining power with their suppliers and in house branding is not an opportunity for them.

The challenges factors faced by the organized and unorganized retailers and their impact are summarized in below table:

Particulars	Organized retailers	Unorganized Retailers	F value	p- value
Availability of skilled manpower	4.65	4.98	2.503	0.115
Customer behavior & loyalty	5.00	4.63	5.480	0.020
Availability of technology	4.76	3.17	100.778	0.000
Logistics problem (internal)	5.20	5.559	6.116	0.014
Lack of infrastructure	4.55	3.83	22.231	0.000
Power supply	3.40	5.24	220.162	0.000
Land & Rental Rates	4.10	5.18	60.852	0.000
Competition from other sectors	5.89	6.06	1.129	0.289
Competition from same sector	5.77	5.50	3.075	0.081
Operation cost	4.64	5.60	43.646	0.000
Government policy (FDI)	1.00	1.00		
Inefficient distribution channel	5.26	5.35	0.254	0.615

The biggest challenge faced by the organized retailers in Nagpur city is the competition from unorganized players followed by competition within the organized sector. The other major challenges are inefficient distribution channel and customer behavior. The major challenges for unorganized retailers are competition from organized sector and cost of operation. The other challenges are logistic problems, inefficient distribution channel and competition from same sector. The FDI opposition from government seems to have less impact on both organized and unorganized retailers.

The first few factors of opportunity and challenges of both organized and unorganized retailers remain same irrespective of the differences.

Different products segments are perceived to be affected by the opportunities and challenges faced by the retailers are summarised in below given table:

Table showing opportunity factors in different product segments

Particulars	Food & beverages	Health, beauty & wellness	Home décor & furnishing	Books & music	Electronic goods & consumer appliances	Fashion (Clothing, footwear & accessories)
Growing Mall culture	3.15	4.48	4.42	5.75	4.00	6.18
Nagpur's position as upcoming in central India	6.14	3.15	5.17	3.00	3.92	4.18
Nagpur's multi cultural people	4.90	5.76	6.33	6.00	5.00	4.91
Nagpur as Tourist destination	5.62	5.57	6.33	5.83	3.77	3.64
Nagpur's growing middle class	5.76	6.29	4.08	5.67	6.38	6.27
High bargaining power with suppliers	3.00	2.50	1.92	5.15	3.00	4.72
Proportionate increase in spending with earnings	6.14	2.75	5.67	5.38	4.64	5.67
Growing number of educational institutions	4.48	6.17	6.58	4.38	5.27	5.61
Large earning young customers	6.29	5.75	6.17	5.08	6.27	5.78
Increase in trend of impulse buying	4.90	3.75	3.17	6.08	5.18	6.06
India's growing economy	4.86	5.17	4.75	5.38	6.18	5.28

Table showing Challenge factors in different product segments

Particulars	Food & beverages	Health, beauty & wellness	Home décor & furnishing	Books & music	Electronic goods & consumer appliances	Fashion (Clothing, footwear & accessories)
Availability of skilled manpower	5.69	4.14	6.08	6.17	6.36	2.72
Customer behavior & loyalty	5.38	4.76	4.17	5.83	3.92	6.18
Availability of technology	3.63	3.95	5.08	5.83	5.77	3.00

Logistics problem (internal)	5.92	5.81	5.17	3.75	3.67	3.83
Lack of infrastructure	4.54	5.19	4.17	4.50	5.62	4.09
Power supply	3.15	4.10	3.00	4.00	3.15	3.18
Land & Rental Rates	4.61	3.82	4.00	4.92	3.08	4.24
Competition from other sectors	6.14	6.33	6.33	6.23	6.00	6.39
Competition from same sector	5.48	5.35	5.08	6.31	6.18	6.33
Operation cost	4.43	4.33	5.83	4.00	4.00	5.61
Government policy (FDI)	1.00	1.00	1.00	1.00	1.00	1.00
Inefficient distribution channel	6.19	5.58	4.58	6.08	5.18	3.50
Availability of skilled manpower	4.14	6.08	6.17	6.36	5.69	2.72

According to the latest report on Indian retail Industry the following table shows the segmentation of total retail industry for the year 2014.

Table 5 Table Showing Penetration of the Organized Sector

Particulars	2014
Apparel	33%
Telecom	11%
Food & Grocery	11%
Consumer Electronics	8%
Food service	87%
Jewelry	6%
Footwear	4%
Others	20%

Source: Money Control

6. Conclusion

Retailing in India is the most dynamic industry, which represents huge opportunities for both organized and unorganized players. The major opportunity and challenges for both organized and unorganized retailers remain same as they see each other as their biggest threat. There would be a win- win situation for both if they mitigate the challenges and leverage on the opportunities that could benefit both sectors. It would be tough to handle all the opportunity and challenges factors all at once. To enhance the growth the organized retailers needs to adopt strategies with respect to investment in technology and in supply chain management. Investment in technology would reduce their wastage of time, goods and efforts. There should be a strong networking between retailers for the use of technology and should also pressurize other channel members including suppliers to adopt compatible technology. The government should also ensure a single window clearance for retail chain and permit FDI in retail in different phases. . Government can encourage PPP model for infrastructural development It can also ensure flexibility of labour laws thereby ensuring the availability of skilled workforce for organized retailing. Retail marketing has been considered as a race without the finish time. The present study has it limitations as the selection of sample was judgmental and this may not be perfectly representative of current retail scenario in India.

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