

## Changing Trends in Kerala Retailing

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### Abstract

Retailing is a consumer interfacing activity and acts as a last link in the supply chain. It is one of the largest sectors in the global economy is going through a transition not only in India but around the world. Retailing has emerged as one of the most lucrative sectors in India and has seen phenomenal growth in the last few years. A strong trend in favour of organized retail formats is being witnessed in both food and non-food sectors as people are showing preference to one stop shops. Organized retailing provides 3 V's to the consumer-Value, Variety and Volume to the consumer to create a 'customer –pull environment'. Overall socio-economic development and retail boom in India have altogether changed the customers expectation from retail outlets.

*Key Words: Retailing, Global Economy, Supply Chain, Consumer -Value*

### Introduction

#### Indian Scenario

By the turn of the 20th century, the face of the Indian retailing industry has changed significantly. The retailing industry, which, until the early 1990's, was dominated by the unorganized sector, witnessing a rapid growth in the organized sector with the entry of corporate groups into the retailing market. Organised retailing could be classified into any one of the following formats namely shopping malls, departmental stores, hypermarkets, supermarkets, discount stores, specialty stores, branded stores and convenience stores. Retailing giants, the largest being Wal-Mart Bharti, Reliance, AV Birla Group and Future Group (pantaloon), plan to expand their share of organized retail from the current 3 percent to approximately 15-20 percent in 4 years by investing more than \$25 billion (excluding real estate investment). A study by a leading industry chamber has reported that the boom in the Indian retail sector will continue and top \$365 billion in 2008, against \$300 billion a year before. Organised retail is projected to grow at the rate of 40 percent per annum to reach 50 US Dollar by 2010.

**Table 1**  
**Share of Organized retail in total market (% of organized)**

Retail segment	2004	2005	2006	2007
Clothing, textile & fashion	13.6	15.8	18.9	22.7
Jewellery	2	2.3	2.8	3
Watches	39.6	43.5	45.6	48.9
Footwear	25	30.3	37.8	48.4
Health & Beauty care	6	7.6	10.6	14.3
Pharmaceuticals	1.8	2.2	2.6	3.2
Consumer durables & home appliances	7.8	8.8	10.4	12.3

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Mobile accessories, services	6.5	7	8	9.9
Furnishing, furniture-home&office	6.7	7.6	9.1	11
Food & grocery	0.5	0.6	0.8	1.1
Catering	5.7	5.8	6.9	8
Book, Music & Gifts	9.8	11.7	12.6	13.4
Entertainment	2.6	3.3	4.1	5.3
Total	3	3.6	4.6	5.9

[Source: *The Indian Retail Story, Images F&R Research, Indian Retail Forum 2008*]

Table 1 shows that the food and grocery sector has the lowest organised retail penetration when compared to other categories. Thus, there is huge potential for the growth and exploitation of this sector in the coming years by the large corporate outlets. With a year-on-year growth of 30-35 percent the retail trade in India with top \$440 billion by 2010, says a study by Associated Chamber of Commerce and Industry of India. A study by Indian Council for Research on International Economic Relations (ICRIER) suggests that the Indian retail sector is expected to grow by a staggering 83.22 percent to \$590 billion in 2011-2012. Rising real estate prices are forcing many retailers to adopt the franchising route to expansion or target Tier II cities.

Moreover the retail sector, India's second largest employer after agriculture, is looking for industry status along with a minister to look after its interest to help it flourish in the coming years. It is also felt that a retail policy should also be considered for promulgation by the government which will help modern retailing grow in India. According to Government estimates, the total retail business is around Rs 1200000 crore, which is roughly one-third of the country's GDP. Of this, about 95 percent is accounted for by the unorganized sector. Several demographic trends are favourable for the growth of organised trade. The following table shows the percentage of organised and unorganized retail trade in different countries:

**Table:2**  
**Percentage of Organized and unorganized Retail Trade**

Country	% of Organised Retail Trade	% of Unorganized Retail Trade
<b>India</b>	<b>6</b>	<b>94</b>
<b>China</b>	<b>20</b>	<b>80</b>
<b>Vietnam</b>	<b>22</b>	<b>78</b>
<b>South Africa</b>	<b>32</b>	<b>68</b>
<b>Brazil</b>	<b>75</b>	<b>25</b>
<b>USA</b>	<b>85</b>	<b>15</b>

[Source: *EIU, AT Kearney Analysis*]

Table 2 reveals that Indian organized retail market has huge growth potential in the coming years. The reform of the retail industry is inevitable. The government argues that regulatory reforms will enable gains for customers through the reform of the supply chain systems. The number of jobs that will be created both in the front-end and the back end segments of the sector is likely to be more than to compensate for some amount of the displacement that may occur due to the policy change. The logic fuels the argument for the necessity of a retail revolution presented by extraordinary demographics, surging disposable income, increased urbanization, the propensity to spend rather than save, and the rise of a young affluent group of big spenders.

### **The FDI Debate**

The retailing sector is witnessing an enormous excitement lately with the government debating to what extent FDI be allowed in retail. The government has earlier made noises about not allowing FDI in food and grocery as it was perceived to be detrimental to the interest of small retailers. Food retail trade is a very large segment of the total economic activity of our country, accounting for 63 percent of total retail sales in the economy, and due to its vast employment potential. FDI for retail developments is taking place by and large in sectors, namely clothing and textiles, consumer

durables and food and beverage covering major cities, metros as well as Tier-II and Tier III cities in India.

In early 2006, foreign investors were allowed to own upto 51 percent share in single brand outlets only. FDI is completely prohibited in multi-brand retail. From 2000-2008, FDI in organised retail was approximately INR 78 crore. The only exception to the restriction of FDI in the industry has been the food wholesale sub-sector where 100 percent FDI is allowed. FDI is permitted in cash-and-carry outlets, where goods are sold only to those who intend to use them for commercial purposes, like Metro and Shop rite. Even in this case protests have occurred from time to time. However it seems that, if organised retail in India has to grow as estimated, it require significant capital technology and application of latest global practices. In such cases restricted FDI regime may become an hindrance and one of the key steps to unleash its potential would be to open up the sector to FDI.

### **Retail Scenario in Kerala**

In Kerala, there has been an explosion in retailing in the last few years. Organised retailing is spreading and making its presence felt in different parts of the State. The major national retail players in the State include the Spencer's, Reliance, Big Bazaar, and Fabmall alongside local chains like Margin Free Markets and Varkey's. In Kerala, a sector of people is opposing the retail giants because it will spoil the retail sector. But in Malabar region, a group of customers has decided to raise their voice in favour of the big retail chains if it means better bargains for them. In Kozhikode, the Upabhoktru Samrakshana Samiti (Consumer Protection Committee) in 2007 organised its first rally welcoming the entry of organized retailers about 2000 people participated and raised their voice in favour of a proposed retail outlet there. But however the consumer's demand goes diametrically against the stand of the Kerala Vyapari Vyavasayi Ekopana Samiti (KVVES) that are against the entry of big players into the retail arena. The Reliance Fresh outlets had to face many allegations and wide protests from the local traders for opening their stores in many parts of the State.

But it can be seen that though the agitation against organized retail in the State has taken a serious turn in certain parts, the trading community of Kochi, seems to be toeing a different line. In order to meet the challenges posed by big retailers, the traditional retailers in the city are redefining business strategies, organizing leadership summits and focusing more on service. They are of the opinion that personal attention and service is something that they can offer to the consumers. Sourcing of products according to the tastes of the consumers and making it available to them is the other aspect of retail that the small and medium retailers are focussing on. However today's consumers who are hard pressed for time will prefer to go to the market place which offers them best discount, finest ambience and utmost convenience.

Retailing in Kerala is a subject too subtle and relevant; as Kerala is known of more as a consumer State rather than a producer State. The introduction of Margin Free Markets has turned out to be a grand success resulting in it becoming one of the largest retail chains in the country. The future of retailing looks bright with the proposed entry of many major organized retailers. There are many who argue that small traders will be badly hit. Others argue that the farmers in the State will stand to benefit, while there will be choices plenty for the consumers. However, the present government in the State is in favour of the thousands of small retailers who are united under the banner of KVVES.

### **Views of Small Retailers and Customers**

For knowing the impact of organised retailing on small retailers and customers a qualitative field survey was conducted among 50 small retailers and 50 customers in Thiruvananthapuram city.

80 percent of the small retailers reported a drop in sales since the upcoming of the organized retail formats in the city. The survey results shows that the grocery stores are the most adversely affected when compared to general stores and vegetable and fruit stalls.76 percent of the small retailers opined a loss of high value customers after the launching of modern retail outlets in the city. Majority of the small retailers do not provide discounts or special offers to customers which make

them difficult to retain them.70 percent of the small retailers feel threatened by the upcoming of organized retail formats resulting in a major decline in their business.

The study reveals that majority of the customers(76 percent)are satisfied while shopping in organized retail formats due to the convenience of getting variety products and brands under one roof. Favourable atmosphere and décor has been ranked the most preferential reason by majority of the customers for shopping in modern retail outlets followed by other factors such as spacious parking and entertainment facilities.

The new regime in today's competitive environment is the 'Survival of the fittest'. In order to remain competitive in the market the small retailers should adopt standardization with respect to product, quality, and quantity of the goods sold. Traditional retailers need to leverage more on their strengths like customer relationships, home delivery and credit facilities, expanding product portfolios, favourable discounts and changed store layouts.

Globally retailing industry has flourished and India is no exception to that. The best retail format is one, which attracts the highest number of customers by delivering maximum customer satisfaction. It shows that retailing is not just about the product but it is rather about 'an entire experience'.

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