

# STRATEGIC MANAGEMENT



**Brand:** Mehta Solutions

**Product Code:** case1695

**Weight:** 0.00kg

**Price:** Rs500

## Short Description

### STRATEGIC MANAGEMENT case study

## Description

### Case 5: WHAT LIES IN STORE FOR THE RETAILING INDUSTRY IN INDIA?

India is not known as the ‘nation of shopkeepers’, yet it has as many as 5 million retail outlets of all shapes and sizes. Some other optimistic estimates “place the number at as high as 12 million. Whatever be the number, India can claim to have the highest number of retail outlets per capita in the world. But almost all of these are small outfits occupying an average of 500 square feet in size, managed by family members, having negligible investment in land and assets, paying little or no tax and known as the kirana dukaan (‘mom and pop’ stores in the U.S or the corner grocery stores in the U.K.). These outlets offer mainly food items and groceries—the staple of retailing in India. Customer contact is personal and one-on-one, often running through generations. There are a limited number of items offered! often sold on credit—the payment to be collected at the end of the month. The quality of items standard, with moderate pricing.

There is great hype about the growth and prospects of organised retailing industry in India. It must be noted, however, that organised retailing constitutes barely 2 per cent of the total retailing industry in India, the rest 98 percent being under the

control of the unorganised, informal sector of kirana dukaans. Market research agencies and consultants come up with encouraging forecasts about this segment of the retailing industry. For instance, AT. Kearney's Global Retail Development Index ranks 30 emerging countries on a 100- point scale. Its 2007-ranking places India at number one for the third consecutive year, with 92 points, followed by Russia and China. The size of the organised retailing industry is estimated at US \$8 billion and projected to grow at a compound annual growth rate of 40 per cent to US \$22 billion by 2010. Overall, the Indian retailing industry is expected to grow from the current US \$350 billion to US \$427 billion by 2010 and US \$635 billion by 2015.

The economic environment in the post-liberalisation period after 1991, has created several factors that have made this high growth of the organised retailing industry possible. India's impressive economic growth rate of 9 per cent is the prime driver of increasing disposable incomes in the hands of the consumer. The growing size of the consuming class in India, in tandem with the entry and expansion of the organised sector players in recent years, has set the pace for corporate investment in retail business. Practically, every major Indian business group is looking for opportunities in the growing retailing industry. Among them are the big names in the Indian corporate sector such as the AV Birla group, Bharti, Godrej, ITC group, Mahindras, Reliance, Tatas and the Wadia group.

The international environment presently is replete with examples of the fast-paced growth of the retailing industry in many developing countries around the world. In the post-liberalisation period, there is more openness and awareness of the international developments among Indians. The ease of travel abroad and the exposure through television and Internet have increase the awareness of the urban Indian consumer to the convenience of modern shopping. The modern retail formats thus have gained acceptance in India. Carrefour, Tesco and Wal-Mart are the international players already operating in India, with several others like Euroset, Supervalu and Starbucks having plans to enter soon. These international companies bring to India the latest developments in the retailing industry and help to set up a benchmark for the domestic player.

The market environment is one of the most significant in terms of the growth and prospects of the retailing industry in India. In terms of geography, the reach of the organised retailing industry has been growing. In addition to the mega-cities of Mumbai and Delhi, cities such as Bangalore, Pune, Hyderabad, Kolkata and

Chennai are also witnessing a boom in organised retail activity. Retailers are now trying to focus on smaller cities such as Nagpur, Indore, Chandigarh, Lucknow or Cochin. There are interesting possibilities regarding the retail formats. Traditionally, street carts, pavement shops, kirana stores, public distribution systems, kiosks, weekly markets and such other formats unique to India, have been in existence for a long time. At present, most organised retail formats are imitations of those used abroad. These include hyper and supermarkets, convenience store, department stores and specialty chains. Among these formats, a notable trend has been the development of integrated retail-cum-entertainment centres and malls as opposed to stand-alone developments. Besides these, there are some attempts at indigenous formats aimed at the rural markets—such as those by ITC's Choupal Sagar, DSCL's Hairiyali Kisaan Bazaar and Godrej group's Godrej Aadhar. Pricing is an important issue in the retailing industry. Generally, the bulk buying yield lower costs of procurement for the big retailers—a part of which they pass on to the customer in the form of lower prices. In food retailing, for instance, there is a clear trend of low prices being the determining factor in purchase decisions by the cost-conscious Indian consumer. But, lower prices may not be a major issue with the higher-income groups that may place greater emphasis on the quality of products and retail service, store ambience and convenience of shopping. For the majority of Indian consumers however, price is likely to remain a significantly important issue in the purchase decision. Competition has already accelerated with many Indian business groups having entered or likely to enter this booming industry.

The political environment in India is ambiguous! in terms of its support to the organised retailing industry. This is obvious as the unorganised sector employs nearly 8 per cent of the Indian population and is widely spread geographically. The overwhelming presence in terms of

98 per cent of the total retailing industry also is a significant political issue. In a democracy, the politics of numbers makes it imperative for the political class to adopt an ambiguous stand. In some cases, politicians have acted in favour of the unorganised sector by disallowing the setting up of large retail in some states. Overall, however, there is ambiguity as there are several environmental trends in favor of the development of the organised retailing industry.

In the regulatory environment, there has been gradual easing of the restrictions albeit at a slow pace, in view of the ambiguous political stance as indicated above.

Interestingly, the retailing industry, is still not recognised as an industry in India, Foreign direct investment of up to 100 per cent is not permitted though it is possible

for foreign players to enter through the routes of agreements, cash-and-carry wholesale trading and strategic licensing agreements. Another problem area is of the real estate laws at the level of state governments that are yet to be clear on the issue of allowing large stores. Restructuring of the tax structure for the retailing industry is another regulatory issue requiring governmental action. However, tariffs on imported consumer items have been gradually aligned to meet the prescribed WTO norms and reduction of import restrictions are likely to help the growing organised retailing industry.

The socio-cultural environment offers many interesting insights into the changing tastes and references of the urban and semi-urban Indian consumer. There is a large rural market consisting of nearly 720 million consumers, spread over more 600,000 villages. India's consumers are young: 70 percent of the country's citizens are low the age of 36 and half of those are under 18 years of age. These people have deep roots in the local culture and traditions, yet are eager to get connected with and know the outside world. According to a DSP Merrill Lynch report, the key factor providing a thrust to the retail boom in India is the changing age profile of spenders. A group of seven million young Indians in their mid-twenties, learning over US\$ 5000 per year, is emerging every year. This group constitutes people who are enthusiastic spenders and like to visit the new format retail outlets for the convenience and time saving they offer. Malls are also being perceived as just places for shopping, but for spending leisure time and as meeting places. There has been an emergence of a combination of the retail outlet and entertainment centres having multiplexes, with food courts and video game parlours.

But there are some pitfalls too. For instance, organised retailing in India has had to deal with the misconception among middle-class consumers that the modern retail formats being air conditioned, sophisticated places are bound to be more expensive.

The supplier environment probably offers the biggest constraint on the growth of the retailing industry in India. Reaching India's consumers cost effectively is a distribution nightmare, owing to the sheer geographical size of the country and the presence of traditional, fragmented distribution and retailing networks and erratic logistics. For instance, the apparel segment that is one of the two top segments, the other being food, have had to invest in back-end processes to support supply chains. Supply chain management and merchandising practices are increasingly converging and apparel retailers

are establishing collaborations with their vendors. Another area of concern is the severe shortage of skills in retailing. Human resource development for the retailing industry has picked up lately but may take time to fill the gap caused due to the shortage of personnel.

The technological environment for the organised retailing industry straddles many areas such as IT support to supply chain management, logistics, transportation and store operations. Some global retailers have demonstrated that an innovative use of technology can provide a substantial strategic advantage. The large number of store items, the diversity of sourcing and the gigantic effort required to coordinate actions in a large retail context is ideal for using IT as a support function. For instance, an innovative use of IT can help in a wide variety of functions such as quick information processing and timely decision-making, reduction in processing costs, real-time monitoring and control of operations, security of transactions and operations integration. The availability of supply chain management, customer relationship management and merchandising software can help much while performing activities such as ordering and tracking inventory items, warehousing, transportation and customer profiling.

Overall, the Indian scenario offers an interesting mix of possibilities and challenges. A successful model of large-scale retailing appropriate for the Indian context is yet to emerge. The modern retail formats accepted globally are in the process of implementation and their acceptability is yet to *be* established.

#### **Questions:**

- 1. Identify the opportunities and threats that the retailing industry in India offers to local and foreign companies**
- 2. Prepare an ETOP for a company interested in entering the retailing industry in India.**

#### **Case 5: WHAT LIES IN STORE FOR THE RETAILING INDUSTRY IN INDIA?**

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million retail outlets of all shapes and sizes. Some other optimistic estimates “place the number at as high as 12 million. Whatever be the number, India can claim to have the highest number of retail outlets per capita in the world. But almost all of these are small outfits occupying an average of 500 square feet in size, managed by family members, having negligible investment in land and assets, paying little or no tax and known as the kirana dukaan (‘mom and pop’ stores in the U.S or the corner grocery stores in the U.K.). These outlets offer mainly food items and groceries—the staple of retailing in India. Customer contact is personal and one-on-one, often running through generations. There are a limited number of items offered! often sold on credit—the payment to be collected at the end of the month. The quality of items standard, with moderate pricing.

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#### **Details**

- 1. Case study solved answers**
- 2. pdf/word**
- 3. Fully Solved with answers**