

## EMERGING CITIES OF INDIA: THE NEW AGENDA ON RETAIL INVESTOR'S DESK

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### ABSTRACT

Liberalisation of retail policies in India paved the way to foreign as well as domestic investors to mark the entry and get into one of the highly dynamic market of world. Retail being one of the most important topics of Indian economy has become impetus to many of the investors to enhance their existing business or add one more number to their business verticals. Many of organised retailers like Big Bazar, more, Pantaloons, Reliance Trends etc have already entered in the emerging cities. The level of organised retailing though, has much space to get saturated. The paper analyses the reality of retail in emerging cities, Foreign Direct Investment Policy and importance of emerging cities for retail investment and challenges ahead. The paper has considered reference cities for analysis of situation and trends.

**KEYWORDS:** Retail Trade in Emerging Cities, Prospects and Challenges of Retail in Emerging Cities of India

### INTRODUCTION

Retailing as defined by Philip Kotler, 'includes all the activities involved in selling goods and services to the final consumers for personal, non-business use. A retailer or retail store is any business enterprise whose sales volume comes primarily from retailing. Retail one of the major sectors of Indian economy contributes more than 10% of total India's GDP and forms 8% of the total employment (IBEF 2015). With this one can explore the importance this growing sector as far as macro economy is concerned. The sector as divided in two categories organised and un-organised making the way to researchers to analyses pros and cons.

Retail sector, as compared to 2006-07, where organised retail sector consisted only 4% of the total retail (Joseph 2008) grew substantially over the years and became as much as 8% of the total retail (KPMG 2014). India has occupied a higher position in global retail rankings, it has high market potential, low economic risk and political risk too at moderate level.

Organised retail sector as far as emerging cities are concerned make of supermarkets, hypermarkets whereas unorganized retailers are mom and pop stores, general grocery stores, typically where owner himself/herself is the sole responsible person for the shop. As far as local economy of these cities concerned retail sector again forms integral part of their respective GDP.

### Foreign Direct Investment (FDI) in Retail Sector

For many days FDI is being one of the booming topics in India due its very political involvement and economic consequences on the economy as a whole. Foreign Direct Investment (FDI) or foreign investment refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, other long-term capital, and short-term capital as

shown in the balance of payments. As far as Indian retail sector is concerned, FDI holds a very much importance. In the single brand retail trade FDI to the tune of 100% is allowed. Earlier it was allowed 51% of the total investment, but laws were amended seeing the feasibility and potential of the sector. As far as Multi-Brand Retail Trade is concerned, FDI is allowed upto 51% of the total investment. Again speaking about legal norms, cities having population of more than 10 lakhs are eligible to get foreign direct investments. There various cities which are still to get the attention of retail investors although having greater economic importance.

Retailing has become impetus to many of the domestic as well as foreign investor as it ensures the business and most important the growth in the near future.

## **OBJECTIVES**

- To study the dimensions of emerging cities responsible to attract retail investment in India
- To study trends of retail investors in emerging cities of India.

## **RESEARCH METHODOLOGY**

The primary source of the information in this research study is the secondary data. The available information on internet regarding the Retail Investments and existing scenario has been extensively used to complete the dissertation report. All the available print as well as online Journals, Articles, papers provided necessary information to the group to finalize the research study.

### **Factors Fueling the Growth of Retail Sector in Emerging Cities**

The many demand and supply factors as stated in Table 1 fueled the growth of retail sector and making it the potential sector.

## **DEMAND FACTORS**

### **Growing Working Population**

The country is enjoying the benefit of highest working population with average age of 26 years. As stated by KPMG in its report titled "India the next growth story", the retail sector has observed that people between the age group of 15 to 59 years are the largest spender to it. Nashik city has as many as 52.50% population(Census Data 2011) in this age group; which propel the investors to come and invest in the city like Nashik. India has many more years to enjoy this benefit and much more than what China can.

### **Growing Middle Income**

Retail Customer base widely come from middle income class. Middle class as described by Birdsall et al. (2000) is the class of people of a particular country with income ranges from 75 percent to 125 percent of median of each country's average annual household income. The proportion of middle class people is greater than those live in metros. Middle income households are major customer base for retail sector. Indian middle class counts for 75 million or 300 million individuals. During the last decade disposable income of Indian people has increased substantially.

## Growing Urbanisation

Growing urbanization is again seen as opportunity by retail giants. It is directly connected with increasing demand for consumer products in city. As studied by McKinsey Global Institute (2010), Indian country's city population is expected to grow to whopping 590 million in 2030 from 2008's 340 million people. This indeed an indicator of growing population along with urbanization as one of the major contributors

## Changes in Customers Attitude

No matter retailer provides what products and services it's the consumer who can decide what should be offered by retailers. In Until 1980s, customer was accepting what was being offered by retailers. The liberalization has come with improving togetherness among companies/retailers but together it has also brought the world consumer together and therefore increased the bargaining power of the later. Customers' attitudes, choices decides what retailers should offer.

**Table 1: Factors Fueling the Entry of Retail Investors in the Market**

Demand Factors	Supply Factors	Regulatory Factor	Remarks
Growing working group population	Rapid Infrastructural Investments, Supply Chain efficiency	Liberalisation of government policies, FDI etc.	Working group population forms 65% of the total population
Rising Disposable Income Level	Easy access to credit		
Growing urbanization and changes in attitudes of customers	Growing interest of investors to enter in one of the profitable sectors		

## Supply Side Factors

### Rapid Infrastructural Activities

Retail infrastructural activities are taking the pace like increase of transportation facilities, easy access to credit such as credit cards etc. particularly has accelerate its pace of infrastructural development. Roads, bridges, transportation, rails etc are paving the ways to vehicles of retail giants. These factors thus sufficient enough to ensure the strong penetration of retail investment into tier II and tier III cities.

### Easy Access to Credit

Indian government has already liberalized the many legal aspects if it comes to access the credit. The corporate giants can get the source the required fund from various easily available sources and with reasonable cost of funds. This leads to motivate them to spend on retail infrastructural activities.

### Regulatory Framework with Respect to FDI

Department of Industrial Policy and Promotion (April 2014) in its consolidated FDI policy given that, Foreign Direct Investment (FDI) to tune of 51% in Multi-Brand Retail Trade (MBRT) are allowed as per FDI Policy published on 5<sup>th</sup> April 2013. On the other hand, Investment in Single Brand Retail Trade (SBRT) increased to 100% according to the same policy. This has made the way to potential foreign investors to make their ways to Indian retail sector.

Ernst & Young (EY) and Retailers Association of India (RAI) (2014) surveyed top 25 CFOs of prominent retail outlets<sup>4</sup> and one of the key findings was:

“The agenda of the CFOs was the focus on growth through expansion in Tier-II and below cities.”

This shows the impetus of emerging cities for retail investments as a part of business expansion. Another major reason as cited in the article most of the metro cities are being saturated and thus retail firms are moving their foray into tier II or below cities.

Renowned research firm The Boston Consulting Group conducted a research in association with RAI in 2015; projected overall Indian retail sector to become \$1trillion by 2020 from \$600bn in 2015. It has expected the retail market to be grow by 12% in accordance with historical trends.

## CHALLENGES AHEAD

The road though, seems to be easy; but filled with some challenges as well. Investors are keen on conducting city risk analysis before spending money on the investments. These challenges can be discussed as under:

- Lack of storage facilities and delay in transportation of goods often leads to huge wastages and leads to increase in unnecessary inventory costs.
- The clause of back end infrastructure has again become the headache for investors. As per FDI norms investors have to invest 50% of their total investments (minimum investment \$100mn) should be done back end infrastructure. This is going to add extra overheads in and thus, ultimately will increase the cost of production.
- Growing cost of real estate is one of major concerns. Real estate sectors demands more costs in terms of prices and rents which increases the operational costs of retailers.
- Problems of attrition rates in this sector are quite high. Due to insecurity of jobs workers working in this sector are not permanent in nature. It adds to training cost of retail stores.
- Again big investors have to face intense competition from existing traditional retailers. They have already make rapport with their customers by personal attention, proximity to their location etc.

## CONCLUSIONS

The road though, seems easy for retail investors; they need to work a lot on potential risk and challenges. Otherwise the growth is a guarantee in retail sector going by all the analysis work. Existing retailers, of course, need to keep in mind the potential intense competition from foreign investors as well as domestic investors.

Traditional retailers need to work on their existing structure and are forced to make the format that is more customer centric. To keep the pace as of e-Commerce players, they need to improvise on their service domain.

Overall, agenda of retail investors to bring themselves into emerging cities is fully workable and profitable provided it goes in a structured and scientific manner.

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