

CHALLENGES FACING BY THE INDIAN ORGANIZED RETAIL SECTOR IN IMPLEMENTING INFORMATION TECHNOLOGY

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Abstract

India is now on the radar of global retailers with accelerated development of retailing industry. The idea of brand building to create value to domestic products is essential not only for marketing our consumer products more efficiently, but also for the development of our own retailing industry. The major limitation of the organized retail market in India is the battle from the unorganized sector. Traditional retailing has been innate in India for the past few centuries and enjoys the payback of low cost composition, as its owner operated, which results in less labor costs and minimum taxes to pay. The process of avoiding middlemen and providing increased income to farmers through direct procurement by retail chains need the attention of policy makers. Taking care of supply chain management, mass procurement arrangements and

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inventory management are areas that need the focus of entrepreneurs. Proper training facilities for meeting the increasing requirements of workers in the sector would need the attention of both Government and the industry. Competition for experienced personnel would lead to belligerence between retailers and higher rates of attrition, especially during the phase of accelerated growth of the retail industry. This paper aims to study the challenges faced by the Indian organized retail sector in implementation of Information Technology as organized sector have big expenses like higher labour costs, social security to employees, bigger premises, and taxes to meet.

Keywords: Organized retail sector, Information technology, Challenges, Consumers and Retailers.

INTRODUCTION

Indian organized retail market is growing at a fast pace due to the boom in the India retail industry. In 2005, the retail industry in India amounted to Rs 10,000 billion accounting for about 10% to the country's GDP. The organized retail market in India out of this total market accounted for Rs 350 billion which is about 3.5% of the total revenues. Retail market in the Indian organized sector is expected to cross Rs 1000 billion by 2010. Traditionally the retail industry in India was largely unorganized, comprising of drug stores, medium, and small grocery stores. Most of the organized retailing in India have started recently and is concentrating mainly in metropolitan cities. The growth in the Indian organized retail market is mainly due to the change in the consumer's behavior. This change has come in the consumer due to increased income, changing lifestyles, and patterns of demography which are favorable. Now the consumer wants to shop at a place where he can get food, entertainment, and shopping all under a single roof. This has given Indian organized retail market a major boost. Retail market in the organized sector in India is growing can be seen from the fact that 1500 supermarkets, 325 departmental stores, and 300 new malls are being built. Many Indian companies are entering the Indian retail market which is giving Indian organized retail market a boost. One such company is the Reliance Industries Limited.

It plans to invest US\$ 6 billion in the Indian retail market by opening 1000 hypermarkets and 1500 supermarkets. Pantaloon's is another Indian company which plans to increase its retail space to 30 million square feet with an investment of US\$ 1 billion. Bharti Telecoms an Indian

company is in talks with Tesco a global giant for a £ 750 million joint venture. A number of global retail giants such as Walmart, Carrefour, and Metro AG are also planning to set up shop in India. Indian organized retail market will definitely grow as a result of all this investments. Indian organized retail market is increasing and for this growth to continue the Indian retailers as well as government must make a combined effort. The recent years have witnessed rapid transformation and vigorous profits in Indian retail stores across various categories. This can be contemplated as a result of the changing attitude of Indian consumers and their overwhelming acceptance to modern retail formats. Asian markets witness a shift in trend from traditional retailing to organized retailing driven by the liberalizations on Foreign Direct Investments. For example, in China there was a drastic structural development after FDI was permitted in retailing. India has entered a stage of positive economic development which requires liberalization of the retail market to gain a significant enhancement. Domestic consumption market in India is estimated to grow approximately 7 to 8% with retail accounting for 60% of the overall segment. Of this 60%, organized retail is just 5% which is comparatively lesser than other countries with emerging economies.

In developed countries organized retailing is the established way of selling consumer products. Despite the low percentage, Indian textile industry has grown noticeably in organized retailing of textile products. The negative phase in exports may have compelled the Indian textile retailers to explore the opportunities in the domestic market substantially causing the outstanding growth in the concerned segment. These indications give a positive notion that organized retailing has arrived in the Indian market and is here to stay. It is expected to grow 25-30 per cent annually and would triple in size from Rs35,000 crore in 2004-05 to Rs109,000 crore (\$24 billion) by 2010. A vast majority of India's young population favors branded garments. With the influence of visual media, urban consumer trends have spread across the rural areas also. The shopping spree of the young Indians for clothing, favorable income demographics, increasing population of young people joining the workforce with considerably higher disposable income, has unleashed new possibilities for retail growth even in the rural areas.

Thus, 85% of the retail boom which was focused only in the metros has started to infiltrate towards smaller cities and towns. Tier-II cities are already receiving focused attention of retailers and the other smaller towns and even villages are likely to join in the coming

years. This is a positive trend, and the contribution of these tier-II cities to total organized retailing sales is expected to grow to 20-25%. India is on the radar screen in the retail world and global retailers and at their wings seeking entry into the Indian retail market. The market is growing at a steady rate of 11-12 percent and accounts for around 10 percent of the country's GDP. The inherent attractiveness of this segment lures retail giants and investments are likely to sky rocket with an estimate of Rs 20-25 billion in the next 2-3 years, and over Rs 200 billion by end of 2010. Indian retail market is considered to be the second largest in the world in terms of growth potential.

Table 1: Explains the key differences between Organized and Unorganized Retail Sector

Sl no.	Organised sector	Unorganised sector
1.	The enterprises or places of work where the terms of employment are regular and therefore, people have assured work. They are registered by the government and have to follow its rules and regulations which are given in various laws such as the Factories Act, Minimum Wages Act, Payment of Gratuity Act, Shops and Establishments Act etc.	The enterprises or places of work are not registered by the government and does not follow any rules or regulations. There are no terms of employment.
2.	Workers enjoy security of employment.	Workers do not enjoy security of employment.
3.	They work only fixed number of hours. If they work more they get paid more.	There is no fixed number of hours.
4.	Worker enjoy benefits like paid leave, Provident fund and medical benefits.	Workers do not enjoy any benefits.

Source: www.quora.com

Figure 1: Depicts the Future of Organized Retail Sector in India

BY 2015, ORGANISED RETAIL WILL HAVE A 14-18% SHARE OF TOTAL RETAIL



Source: The Great Indian Bazaar (Organized Retail Comes of Age in India) by Mckinsey & Company (2008)

Figure 2: Depicts the Share of Organised Retail in Selected Countries

Country	Total Retail Sales (US\$ bn)	Share of Organized Retail (%)
USA	2,983	85
Japan	1,182	66
China	785	20
United Kingdom	475	80
France	436	80
Germany	421	80
India	322	4
Brazil	284	36
Russia	276	33
Korea, South	201	15
Indonesia	150	30
Poland	120	20
Thailand	68	40
Pakistan	67	1
Argentina	53	40
Philippines	51	35
Malaysia	34	55
Czech Republic	34	30
Vietnam	26	22
Hungary	24	30

Source: Planet Retail and Technopak Advisers Pvt. Ltd

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Figure 3: Depicts the Overall Growth India Retail - Total vs. Organized Sector

		Indian Retail (Rs. bn)				
		2003-04	2004-05	2005-06	2006-07	CAGR 2004-07 (%)
1	Food & grocery	7,028	7,064	7,418	8,680	7.3
2	Beverages	212	309	373	518	34.7
3	Clothing & footwear	777	993	1,036	1,356	20.4
4	Furniture, furnishing, appliances and services	512	656	746	986	24.4
5	Non-institutional healthcare	950	972	1,022	1,159	6.9
6	Sports goods, entertainment, equipment & books	212	272	308	395	23
7	Personal care	371	433	465	617	18.5
8	Jewellery, watches, etc.	530	610	655	863	17.7
Total Retail		10,591	11,308	12,023	14,574	11.2

		Organized Retail (Rs. bn)				
		2003-04	2004-05	2005-06	2006-07	CAGR 2004-07 (%)
1	Food & grocery	39	44	50	61	16.5
2	Beverages	11	12	13	16	14.7
3	Clothing & footwear	168	189	212	251	14.3
4	Furniture, furnishing, appliances and services	67	75	85	101	14.8
5	Non-institutional healthcare	14	16	19	24	20
6	Sports goods, entertainment, equipment & books	25	33	44	63	37
7	Personal care	11	15	22	33	46.9
8	Jewellery, watches, etc.	18	24	33	49	40.5
Total Organized Retail		350	408	479	598	19.5
Share of organized retail in Total Retail (%)		3.3	3.6	4	4.1	

Source: CSO, NSSO, and Technopak Advisers Pvt. Ltd.

Figure 4: Depicts the Key Retailers and their growth in India

Organized retailers in India and the store formats being used

Format	Key Players In Organised Retail	Retailer	Original Formats	Recent formats
Food and Grocery	Food Bazaar, Food World, Subhiksha, Nilgiris, Tiresia, Big Bazaar, Spencer's	RPG Retail	Supermarket (Foodworld)	Hypermarket (Spencer's) Specialty Store (Health & Glow)
Food and Beverage	Barista, Café Coffee Day, Mc Donald's, Pizza Hut, Haidilao	Pharmas	Department Store (Pharmy Megastore) Mail (Crossroads)	Discount Store (TulMar)
Department Stores	Shoppers Stop, Lifestyle, Westside, Globus, Pyramid	Pantaloon	Department Store (Pantaloon)	Supermarket (Food Bazaar) Hypermarket (Big Bazaar) Seamless Mall (Central)
Pharmacy	Health and Glow, CRS, 98.4, Apollo Pharmacy	K Raheja Group	Department Store (Shoppers' Stop) Specialty Store (Crossword)	Home (Home Stop) Hypermarket (Hypency)
Books, Music & Gifts	Landmark, Crossword, Archies, Music World, Planet M	Eto/Trent	Department Store (Westside)	Hypermarket (Star India Bazaar)
		Landmark Group	Department Store (Lifestyle)	Hypermarket (Max)
		Others	Supermarkets (Subhiksha, Trinethra, Nilgiri's etc) Specialty Stores (Vivek's, Vasanth's etc)	

Source: A.T. Kearney Research and Analysis

Reasons for the Growth of Retail Industry in India:

- Emergence of Organized Retail.
- Spending Capacity of Youth of India.
- Raising Income and Purchasing Power.
- Changing Mindset of Customers.
- Easy Customer Credit.
- Higher Brand Consciousness.
- Increasing Disposable Income.
- Increasing no. of Dual Income from Nuclear Families.

- Changing Lifestyle and Consumer Behaviour.
- Experience with Formats.
- Store Design

Challenges in Implementing Information Technology to Organized Retail Sector in India

Organized retailing is based on the principle of unity and unorganized retailing is based on the principle of singularity, hence has to face several challenges as explained below:-

1. IT cost and performance under pressure owing to the high growth in annual IT spend in the retail sector (~13%) while revenues have grown much slower (~2%).
2. Lack of standards in a complex, highly customized IT environment leading to integration challenges, making changes and new functionality development cumbersome and expensive.
3. High maintenance costs stemming from the high degree of customization and fragmentation of point solutions, many of which span different technology platforms.
4. Poor data integrity, the result of systems fragmentation, point solutions, high degree of customization and lack of an underlying best practice architecture, because there is no good practice standard, out-of-the-box solution that spans the full retail space.
5. **The Kirana's continue:** The very first challenge facing the organized retail industry in India is competition from the unorganized sector. Traditionally retailing has established in India for centuries. It is a low cost structure, mostly owner operated, has negligible real estate and labor costs and little or no taxes to pay. Customer familiarity that runs from generation to generation is one big advantage for the unorganized sector. On the other hand, organized sector have big expenses to meet and yet have to keep prices low enough to compete with the traditional sector.
6. **Price War:** There is a price war between different retail organizations. Every one is saying to provide goods at low cost and offers various promotional schemes. In such a case it is difficult to keep one's customers with oneself.(Dr. Shahid Akhter et al).
7. **High Stamp Duties:** in addition to the high cost of real estate the sector also faces very high stamp duties on transfer of property, which varies from state to state.

8. **Price War:** There is a price war between different retail organizations. Every one is saying to provide goods at low cost and offers various promotional schemes. In such a case it is difficult to keep one's customers with oneself. (Dr. Shahid Akhter et al).
9. **The High Costs of Real Estate:** Real estate prices in some cities in India are amongst the highest in the world. The lease or rent of property is one of the major areas of expenditure. A high lease rental reduces the profitability of a project. It is difficult to find suitable properties in central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.
10. **Policy Induced Barriers:** Organized retail in India is managed by both the Ministries of Commerce & Consumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislation. There is a need to govern retail operations through a single apex body. A single agency can take care of retail operations more effectively.
11. **Shortage of Skilled Manpower:** Front-end/retail assistant profiles in stores form a major proportion of the employment in the retail sector while store operations accounts for 75-80% of the total manpower employed in the organized retail sector. Unfortunately, there are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited.
12. **Channel Conflicts:** Globally, retailers maintain a direct relationship with their suppliers. Due to the complex taxation structure and geographical spread of the country, most FMCG companies have developed regional distribution and re-distribution network. Cutting out the distribution network will hurt the operating structure of distributors.
13. **Retail not being recognized as an industry in India:** Lack of recognition as an industry hampers the availability of finance to the existing and new players. This affects growth and expansion plans.
14. **Lack of Adequate Infrastructure:** Poor roads and the lack of a cold chain infrastructure hamper the development of food and grocery retail in India.
15. **Unique Indian Customer:** The Indian consumer 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's 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. (Rajan Divekar et al).

IT systems are at the heart of retail operations and hence play a central role in alleviating pressure points in the retail sector. The converse also holds true - retailers who do not manage their IT landscape effectively will find that, in time, the IT systems become part of the problem rather than components of the solution. This is particularly true for IT systems that can significantly influence COGS in the retail sector. For example: - Advanced planning and scheduling systems, inventory management systems and merchandizing systems. Additional systems that share a crucial role in retail operations are the promotional and seasonality management systems that, when leveraged effectively, can increase the top-line revenues for the retailer.

Conclusions

Organized Retailers have to keep abreast of the latest developments in information technology, and suitably make their operations well prepared for a compatible retail travel and competition. Companies must be flexible and open to change if they wish to remain competitive in this Industry, if they are not utilising their current systems to their uppermost potential by putting in place to the foundations to upgrade effectively to next generation technologies they are sure to lose out the prospective market share. Many retailers are now examining their multichannel retailing strategies as a way of building their online presence and staying apace with Information technology. The more successful brands have evolved from a basic E-Commerce site to more complexes and personalised models that provide wider choice and boost the shopping experience of their potential customers. Retail in India has grown manifold over the years with (Reliance, Tatas, Future Group, RPG, Aditya Birla Group and Bharti enterprises etc in

the fray with full might) economic boom lures more retail players into the sector. Organized Retail in India is just over a decade old and is largely an urban phenomenon as the pace of growth is slow and will grow in future. To succeed long term in this difficult environment it is essential to have the right technology, its adoption and application is the only solution to keep the pace continuing.

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