



RETAILING IN INDIA: EVOLUTION, STRUCTURE, CHALLENGES, AND FUTURE PROSPECTS

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Abstract

The retail sector is among the largest and most vibrant in the Indian economy, accounting for a substantial portion of the nation's GDP, and offering employment opportunities to a huge chunk of the populace – just behind agriculture in terms of employment generation. In the past few decades, there have been tremendous changes in the retail industry in India. It has transitioned from being a market with small, unorganized, family-owned shops to a multi-format business environment comprising of organized supermarkets and hypermarkets, departmental stores, specialty retailers and also increasingly online businesses. This paper attempts to conduct a detailed study on the retail sector in India, taking the historical evolution route from the traditional bazaar and kirana system through the emergence of organized retail post-liberalization to the latest digital disruption due to e-commerce and quick commerce. The paper will also analyze the sector's composition based on its unorganized, organized and online formats as well as the factors driving growth in the sector. Moreover, the paper critically examines the regulatory and policy framework applicable to the sector, especially relating to FDI norms for single-brand and multi-brand retailing, ecommerce, and implications of the Goods and Services Tax on retail logistics. Further, the paper looks into the important factors affecting the retail sector, transformation due to omni-channel and data-driven retailing, and the disruptive impact of digital adoption brought by the ongoing pandemic. There is considerable focus on the issues that have remained a challenge to the growth of the Indian retail sector, such as lack of infrastructure, price wars, regulatory issues, and fear of displacement of small traders. Based on secondary data, it is argued that, in India, future of the retail sector will be one of convergence of traditional and modern methods, rather than outright displacement of the former.

Keywords: Indian Retail, Organized Retail, Unorganized Retail, E-Commerce, FDI, Kirana Stores, Omni-channel Retailing

1. Introduction-

The final step in the chain of distribution is retailing, which involves the sale of products and services to individuals for personal consumption. In India, retailing is not just an economic activity but a social and cultural activity as well, one that forms an integral part of the life of its over one billion people. The Indian retail industry is considered to be one of the fastest-growing sectors in the world owing to increasing income levels, urbanization, growth in the middle class, and growing



digital reach. The Indian retail industry is considered to be among the top five retail markets of the world and also constitutes the employment of a significant number of the labour force of India after agriculture. The Indian retail market can be classified into two types based on the type of retailers that constitute the industry: organized and unorganized retail. While the organized retail industry involves those licensed retailers with formal structures like supermarkets, hypermarkets, departmental stores, and specialty chains, the unorganized retail industry includes the small independent shops referred to as 'Kirana', street vendors, and traditional bazaars and still accounts for the largest number of retail transactions taking place in India.

2. Historical Evolution of Retailing in India

2.1 The Traditional Era-

The history of retail in India can be traced way back in time with bazaars, haats and mandis , which have been present for centuries in the country. Traditional retail formats were distinguished with personal relationships between the seller and buyer, credit transaction, haggling, and trust. Kirana shops came into being in India as the primary retailer format offering convenience, home delivery, credit, and personal touch, which large format retailers could not provide.

2.2 Before Liberalization (Before 1991)

Until the economic liberalization of India in 1991, the Indian retail industry remained largely fragmented, unorganized, and shielded from foreign competition. Due to strict licensing system, the License Raj and restrictions on foreign direct investment, the development of large format retail was highly restricted.

2.3 Post Liberalization Era – Rise of Organized Retail (1991 - 2000)

The liberalization policies of 1991 paved way for India to integrate with the world economy in terms of both trade and investments. As a consequence, organized retail was set to be born. Indian companies entered into the retail sector in 1990s by setting up their first supermarket and departmental store formats in metro cities. Consumers became familiar with self-service shopping format, standardized pricing, and larger product choices available at one place during this period.

2.4 Growth Period (2000 - 2010)

This decade experienced fast growth of organized retail business with the establishment of large format hyper markets, supermarkets and specialty stores in different sectors including apparels, electronics, food and grocery segments.

Shopping malls also increased in numbers in urban areas and started to become destinations for recreation and entertainment more than just places to shop. Owing to the limitations for foreign direct investments in multi brand retail business, international brands also started entering into the retail market through franchising and joint venture models

2.5 Digital Disruption (2010-Present)

With the advent of smart phones, affordable data packages, and digital payment solutions, the past 1.5 decades have seen the rapid growth of e-commerce and change in the consumers' shopping



patterns. E-commerce websites have become widespread not only in urban centers but also tier-II, tier-III cities, and rural regions, providing people with a huge variety of goods and services. The onset of the COVID-19 crisis has pushed more consumers and businesses to go online.

3. Structure of the Indian Retail Sector

3.1 Unorganized Retail

India continues to be the biggest unorganised retail market in the world covering nearly 3/4th of total retail outlets as well as 70% of total retail sale. An unorganised retail market in India still remains the largest in the world and accounts for over three quarters of all the retail outlets and more than 70% of all the retail sales. These include-

- Street vendors & hawkers; Mobile or fixed stall vendors selling small household items, fruits, vegetables and snacks.
- Traditional markets / haats: Periodic village fairs, wholesale urban bazaars.
- Small specialist stores: Single outlet Established separately owned by independent traders selling clothing footwear books and other goods.

It is thought that the reasons for the resilience of unorganized retail are tranquillity, affordability, communicability to the community; cash based purchase (more essential for low- & middle-income groups) and the capacity to offer hyper local assortments.

3.2 Organized Retailing

Business dealings carried out by the licensed retailers who are registered for tax purposes and operate through normal practices comes in the category of organized retail. These include:

- Supermarkets & Hypermarkets that have high capacity retail stores which sell food stuffs and consumer goods.
- Department stores-diversified retail stores which sell clothes, cosmetics, house-hold things and many other commodities.
- Specialty chain stores are category based retail stores which sell electrical goods, clothes, shoes, furniture and many other categories.
- Convenience Stores are small capacity organized stores which sell selected products for longer working hours.

3.3 E-commerce and Online Retail

E-commerce has become a distinct and rapidly evolving platform of Indian retail, including:

Horizontal marketplaces: Large-scale platforms selling goods in several categories and connecting third-party sellers and consumers.

Vertical/platforms focused on particular categories: Platforms catering to fashion, electronics, groceries, etc. Direct-to-consumer (D2C) brands: Brands that sell to consumers directly through digital channels like their websites and mobile apps. Quick commerce: The newer form of retail that offers hyper-fast delivery of groceries and other essentials (often in 10-30 minutes). Social commerce: Selling through social media channels. There has been a lot of development within the



organized retailing industry over the years owing to the rise in disposable incomes, changes in taste of consumers and exposure to foreign retail formats. However, the organized retailing industry, despite having developed, still occupies a relatively small share of total retail sales in India as compared to developed nations because of unorganized retailing.

4. Drivers of Growth in Indian Retail Sector

4.1 Demographic Drivers

The demographics in India are quite favourable to the economy. India has a vast number of people, most of whom are young. Besides, there is a rising number of individuals who have entered the workforce and thereby raising the income levels of the households and their expenditure levels. The growth of urban areas due to migration has been one major driver of retail sector growth.

4.2 Rising Income Levels and Middle Class

Due to the growth of the Indian economy in the last few decades, there has been an improvement in income levels and middle-class size in the country. Consequently, there has been a rise in expenditure on items beyond basic necessities.

4.3 Digitalization and Technological Advancement

Affordable phones along with cheap mobile data have brought a change in all that. There is a conception of digital payment system where people who don't have any credit/debit card could make use of online purchasing system and there would be instant transfer of money from their bank accounts using unified payment interface systems.

4.4 Changes in Customer Behaviour

The present Indian customers, particularly the youth generation, not only think about price factor but also convenience factor. Mass media innovations have enabled the customers know about foreign companies and their products.

4.5 Development of Infrastructure

The development of infrastructure for transport facilities, warehouse and logistic has helped in creating the growth of organized retail chains as well as online delivery systems in small towns and villages which were otherwise underserved.

4.6 Government Policy Initiatives

There are many government policy initiatives which have been taken up with the intention of making the business process easy and promoting digital financial inclusion as well as infrastructure development which have indirectly helped in the development of the retail industry.

5. Foreign Direct Investment (FDI) Policy

The policy relating to FDI has been very crucial in shaping up the future course of action of the organized retail sector in India. The traditional stance taken by India on the policy of FDI in retail



trade is that of a restrictive one owing to concerns about the impact on small traders and the unorganized sector which employs a substantial part of the labour force.

5.1 Single Brand Retail

The policy of FDI in single brand retail trading has been gradually made more liberal, thereby enabling foreigners to set up an entire entity for themselves in India through single brand retail trading provided certain conditions such as sourcing of the products locally, among others, are satisfied. This has resulted in the arrival of many fashion and lifestyle brands in India.

5.2 Multi Brand Retail

The policy of FDI in multi brand retail trading has always been a very restrictive one and politically sensitive owing to the apprehensions about the displacement of small traders and kirana stores. The conditions laid down are stringent and include minimum investments and investing in back-end facilities.

5.3 E-commerce Regulations

E-commerce regulation in India is based on differentiation of two types of operations within the sector, namely, inventory-based where the platform itself is the owner of inventory sold by it and marketplace-based where the platform simply facilitates interaction between buyer and third party seller.

The first form of e-commerce operation is subject to foreign investment restrictions, while the second is not. This regulation greatly influenced development of strategy of major e-commerce companies active in India. Some of them use complicated organizational structures that allow them to remain substantially controlling the work of sellers despite the mentioned regulation.

5.4 Goods and Services Tax (GST)

Introduction of Goods and Services Tax reformed tax structure in India replacing complicated system of state and federal taxes with simplified one. It has certain implications for the design of logistics and supply chain of organized retailers and e-commerce companies .

6. The Main Actors of the Indian Retail

The Indian retail market includes the local conglomerates and foreign companies. Local big firms have established their position in the retail market as the players selling various products such as grocery products, clothing, electronic goods, and lifestyle goods among others, encompassing manufacturing, distributing and retailing of goods in one form. In addition, the international retailers and e-commerce businesses have created their base in India either through investment or acquisitions of local businesses due to the future potential of the market even though the profitability was difficult in the short run. Moreover, there are start-up companies of local e-commerce firms selling beauty, food and fashion products through digital marketing on social media and without physical network of retailing shops.

7. Impact of E-commerce and Digitization



7.1 Changes in the Value Chain of the Retail Industry

The e-commerce industry has transformed the traditional value chain in the retail sector by bringing the manufacturer closer to the consumer.

7.2 Financial Inclusion & Digital Payments

The growth of the e-commerce industry has been closely associated with the emergence of digital payment systems. Not only has the adoption of digital payment system enabled transactions in the digital format but also the adoption of digital payment system and integration into the e-commerce platforms as delivery partners has seen adoption by many owners of kirana stores.

8. Challenges Faced by the Indian Retail Industry

8.1 Fragmentation and Lack of Infrastructural Development

Although some developments have occurred, India still lacks a sufficiently developed retail infrastructure in many regions of the country, especially rural and semi-urban areas. Such a problem does not allow realizing the goal of market saturation of organized retailers as well as e-commerce companies.

8.2 Intense Price War

The retail industry in India, especially the sector of e-commerce, has been experiencing an intense price war. Many platforms have adopted discounting policies in order to attract customers. Such strategies have raised concerns regarding the sustainability of the business model in particular and issues related to predatory pricing.

8.3 Complexity of Regulations

In addition to regulations related to labor laws and licensing requirements in different localities, the retail industry faces complexity in the form of other regulations which may be quite demanding in terms of compliance.

8.4 Displacement of Small Traders

With the increasing presence of organized retail and e-commerce in India, there have been growing worries regarding the possible displacement of small unorganized retailers due to their inability to compete with the former on account of inadequate funds and technology, etc. Owing to the large number of livelihoods dependent on small traders this problem has great political significance.

8.5 Logistics Expenses

Due to the fragmented nature of the transportation system, multi-handling points and infrastructure-related constraints, logistics expenses as a percentage of total trading expenses in India have been relatively high compared to other major economies in the world This is an additional cost for retailers, especially those with wide distribution systems.

8.6 Talent Shortage



Retail is a highly talent intensive industry where expertise is needed in many areas including logistics, customer services and digital marketing, amongst others. This problem is compounded by a shortage of skilled personnel in the retail industry.

8.7 Counterfeit Goods and Quality Issues

In terms of e-commerce, the sale of counterfeit goods via third-party sellers through marketplace websites continues to remain a major challenge.

9. Effects of the COVID-19 Pandemic

The emergence of the corona virus disease has brought about diverse and far-reaching consequences for Indian retail. Lockdowns and social distancing practices have considerably impacted brick-and-mortar retail, particularly non-essentials, causing huge financial losses for both organized and non-organized retail businesses. However, on the contrary, the outbreak of the virus has been instrumental in accelerating the process of moving towards ecommerce by those consumers who previously were reluctant to buy anything online even essentials. Traditionally brick-and-mortar retailers, for instance, kirana shops, began to use technologies of the digital era, work together with delivery services and allowed ordering through whatsapp. In particular, the virus outbreak accelerated investments in contactless payment and hygienic retail. Post-lockdown period is marked by the resumption of sales in the brick-and-mortar format, but at the same time, certain behavioral changes persist in consumers.

10. Future Trends and Outlook

10.1 Further Increase of Growth of E-commerce and Quick Commerce

There are high expectations about continued fast growth in e-commerce as a result of increased availability of the Internet in the small cities and countryside, increase in number of smart phones and people's comfortability with online payments. The growth of quick commerce can be also expected, including even tier II cities.

10.2 More Integrations between Omni-channel Approaches

Businesses are going to increase the integration of offline and online channels where physical stores will serve as fulfilment centers for online orders and digital channels will serve as an assistance to in-store customer experience providing digital catalogue and try-ons.

10.3 Emergence of Direct to Consumer Brands

The segment of D2C brands is expected to grow further due to social media and data analytics used by digitally native businesses to build relationships with the customers in under-served categories of products.

10.4 Sustainability of the Retail Sector

Rising awareness of the environmental and social issues on the part of the customers can lead to increasing demands of the consumers for sustainably manufactured products and eco-friendly packaging.



10.5 Incorporation of Emerging Technologies

The development in fields like artificial intelligence, augmented reality, and big data analytics will play an increased role in the field of retail in providing customized experience, stock management, and logistics operations.

10.6 Formalization of Unorganized Retailers

The unorganized retailers are unlikely to be forced out of business due to competition, and would possibly integrate themselves with technologies like payment systems, stock management, and collaborate with ecommerce/quick commerce platforms as suppliers/delivery services.

10.7 Growth of Tier II and Tier III Cities

The organized and digital retail is expected to grow in Tier II and Tier III cities, since metropolitans would be saturated with market growth and emergence of new consumption centers due to increasing incomes in urbanizing areas.

11. Conclusion

Indian retailing has come a long way from traditional bazaar-based retail and local kirana shops to a more sophisticated system that includes both organized retail chains and digital markets. The development of the industry was driven by demographic changes, income growth, urbanization, and technological progress, but it was also affected by the changes in government policies, including regulations on foreign investments and taxation. Although organized retail and e-commerce have been experiencing dynamic growth, unorganized retail remains the key player in the market in terms of the number of outlets and penetration into the Indian population. Instead of the story of the decline of the traditional retail system, the future of Indian retail will probably be characterized by the convergence of different types of retail. However, there should be careful handling of issues such as those related to infrastructure, regulation, and socio-economic impact on small vendors. The retail industry is ready to become one of the most dynamic and prominent sectors in the Indian economy for the years to come, despite the large consumer base in India, the digitization trend, and the growth in the middle class.

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