

# Emergence of Organized Retail in India- Opportunities and Challenges for Uttarakhand

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## ABSTRACT

*This paper provides detailed information about the growth of retail sector in Uttarakhand and discusses how the sector is witnessing a significant growth in the urban and semi urban markets in the state. It also explores the growth that the sector under went, the reforms that occurred within the sector and the need for further reforms. In Uttarakhand, there is a vast potential for the retail sector that is still untapped, as major part of the state is still dominated by unorganized retail sector. This vast untapped potential is the key attraction to both domestic and global retail players operating here. A modest attempt has been made in the paper to present the status of evolving retail sector within the state, opportunities and innovations therein and challenges that it faces in the years to come.*

## Introduction

The Indian economy has been growing at an average rate of above 8% over the last 4 years putting enormous demands on its productive infrastructure whether it is the physical infrastructure of road, ports, water, power etc. or digital infrastructure of broad band network, telecommunication etc. or the service infrastructure of logistics, all are being stretched to perform beyond their capabilities.

Interestingly this is leading to the emergence of innovative practice to allow business and public service to operate at a high growth in an environment where the support systems are getting augmented concurrently.

In this era of high economic growth retail is the latest bandwagon that is witnessing hordes of players leaping onto it. Though this sector is still in its nascent stage, it is fast spreading and making its presence in different parts of the country with Uttarakhand being no exception.

The rapid growth in India's retail sector it likely to continue as the total sales reached \$435 billion in 2010 (A.T. Kearney Global Retail Development Index, 2011). There has also been a corresponding increase in the retail space as it has increased more than 200 percent from 40 million to 130 million square meters (A.T. Kearney Global Retail Development Index, 2011).

The share of retail trade in country's GDP which is currently between 8-10% is likely to increase and reach 12% soon and to 22% by 2010. In this high growth rate scenario where organized retailing is passing through major expansion drive rural retail is also not far away and is gradually getting organized. Though it still continues to be dominated by unorganized sector but from its present size of \$30 billion it is likely to grow further and reach \$36 billion by 2008 and \$45 billion by 2015.

Today when organized retailing is taking the whole country by a storm Uttarakhand as a state is also not far behind to welcome the sector. Despite rapidly growing state it offers reasonable real estate price in comparison to other states. This is a critical element for growth of retail industry; Uttarakhand has been witnessing a high Industrial growth and increasing presence of MNCs both in IT sector and outside it. This Industrial boom has led to the emergence of new residential areas with aggregation of professional as well as rapid increase in the number of double income households and growth of nouveau riche/upper middle class with increased purchasing power. The state is continuously developing the required infrastructure support in terms of rail, roads, airports and warehouses.

Keeping in mind the growing opportunities and potential for high revenue, Ministry of Railways within the state has not just deployed 345 km of rail route but is also working towards improving the rail

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connectivity with other states. Talks are in process for establishment of Dehradun to Sahranpur rail link which will reduce the Dehradun to Delhi distance by 2 hours. This will not just save the transit time but will also rapidate the supply chain and logistic service process.

Air transport too is not far away in catching up fast as Government has already allocated \$0.23 million for the construction of a helipad in every district of the state and the Pantnagar airport is also getting upgraded for International flights. This mode of transportation will not just further strengthen the supply chain but will also provide smooth and rapid transport of consumables especially in the hilly region of the state. With these developments in physical infrastructure along with healthy climatic conditions, pollution free environment and close proximity to the NCR region, organized retail in Uttarakhand is surely at a take off stage.

#### Key-Growth Drivers

##### 1. The growing middle class:

The growing middle class is contributing to the rapid growth in consumption in retail trade in India and so in Uttarakhand. Burgeoning middle class with rising incomes is expected to accelerate consumption in a big way in coming years as well. The per capita income in the state has grown at a CAGR of 5.2% p.a. between 1993-94 & 2004-05. This means more purchasing power which is fuelling the growth in retail. The state economy is also undergoing a change in age profile of spenders as a result of “two-member” households and their number is expected to further increase in future. This younger population translates into higher propensity to spend, hence more is likely to be the consumption. This factor is driving growth of organized retail in urban areas and to a limited extent in rural areas of the state.

##### 2. High Literacy Rate

Literacy rate in Uttarakhand is 71.6% (Census, 2001) and the state is striving to achieve 95% literacy rate and 100% computer literacy for students by end of Tenth Five Year Plan. This makes the retailers interested in the state to fulfill their requirement of trained manpower for upper, middle and lower level

jobs for their expansion plans. Major Institutes of learning and research are available in the state will facilitate this process.

##### 3. Socio-Economic Growth

State is witnessing an increased economic growth. Hefty pay- packets, growing number of nuclear families in urban areas, increased role of women in jobs have today provided more disposable income in the hands of consumers and they have started giving importance to convenience and style. This is favoring growth of retail sector in the state.

##### 4. Attractive Tourist Destination

All types of tourism -Pilgrimage, Cultural, Adventure, Wildlife and Eco-tourism exist in the state. So tourism happens to be an important sector for state's economy. State has also registered a growth in both domestic and international tourists on a Y-O-Y basis. As per IBEF, in 2005 Uttarakhand has registered an 18% growth in domestic and 24% growth in international tourists' arrivals. This factor is also promoting the growth of organization retailing in and near tourist destinations like Dehradun, Haridwar, Rishikesh, Roorkee, Tehri, Badrinath, Kedarnath, Nainital, Udham Singh Nagar, Mussoorie, Auli etc. The state is also focusing towards development of infrastructure facilities to promote tourism further and make Uttarakhand a world class tourist centre.

##### 5. Fast Developing Infrastructure

In Uttarakhand's Annual plan 2010-11, an outlay of Rs.6800 crores has already been approved by the Deputy Chairman, Planning Commission. To accelerate the state development process a lot of emphasis is being laid on development of roads and bridges, urban infrastructure, power and tourism development. This will favor the growth of organized retailing within the state.

##### 6. Huge Potential for Power Generation

The state has abundant and uninterrupted quality power at most competitive rates of Rs.1.90/unit owing to large water resources. It also has significant hydro- potential (20000MW) out of which only 1124Mw has been used till now. Apart from hydro-power alternate sources of power generation

like solar water heaters, biogas bracketing plants and solar plants are also available in the state energy park. This makes the state a potential power house of the nation and makes the organized food chains and grocery item retailers interested in the state, as maintaining the cold storage facilities here will not be much of a problem in this state in comparison to other states.

### 7. Efficient State Administrative Systems

The proactive state government ,its efficient administrative systems and with wide range of fiscal and non-fiscal benefits laid a red carpet welcome for the retail investors who now look forward to bigger and better expansion plans for the benefits of state, society and consumers.

#### Challenges

Despite these opportunities there are also some challenges in the path of organized retail sector in the state. In addition to problems such as over supply, fierce competition, high rentals, poor infrastructure and shoddy marketing there are some other challenges that may hamper the growth of sector with in the state:

#### 1. Store positioning

It has been observed in the past that many big names in the organized retail scene e.g. Nanz died much ahead of their time. They could cater well to the requirement of classes but were not meant for the masses. This factor can prove to be a threat in Uttarakhand as well where there exists a lot of income dissipation in urban as well as rural areas, the consumer buying behavior, preferences and perceptions are also different.

#### 2. High Cost of Technology

For the growth of sector technology holds the key. Retailers use technology for sales forecasting, inventory control, merchandise planning, billing and customer relationship management. Their reliance is also increasing on high-tech solutions like RFID, intelligent shelves etc. which not only increase the price of the product but sometimes also cost more than product itself and if the products are not available at competitive rates then the customers may find unorganized retailing to be a better sector.

### 3. Human Resource Problem

Retail industry is facing a severe shortage of talented professionals in India and is likely to face the same in Uttarakhand. Due to increased competition from IT&S sector manpower can prove to be a critical bottleneck for the growth of organized retail sector in the state.

#### Opportunities:

#### 1. Growth and Development of Agriculture

With the growth of organized retailing, farmers will get the opportunity to get engaged with large enterprise. They will not just benefit from facilities like contract cultivation but will also get the necessary financial help and aids from large retailers.

#### 2. Increased Employment Opportunities

Though the farmers will be the major beneficiaries, sectors like textiles, furniture, healthcare, jewellery and furnishing etc. are also going to benefit from organized retail business. This will further increase employment opportunities for 4.5 lakh unemployed youth of the state.

#### 3. Economic development of Rural Areas

With the growth of organized retailing rural malls will develop in the state that will purchase high quality products directly from manufacturers and sell them to the consumers at discounted rates as role of middle men will decrease. With this type of authenticity in their sales they will not only win the brand loyalty of local population in rural areas of the state but with the development of air conditioned mega stores the villagers and small-townners will get a brand new shopping experience and the state government will get an opportunity to develop tourism in the interior parts of the state.

#### The Road Ahead

Uttarakhand is rapidly evolving into a competitive retail market having potential customers in both niche and middle class segments. Specialty Chains and franchise stores are coming up in urban areas of the state along with supermarkets and hypermarts. Retailing is surely emerging as one of the most dynamic and fast paced sectors and several reputed players are entering the market.

Retail Sector in Uttarakhand is fast moving towards growth and maturity and is expected to achieve greater heights in years to come. Favorable geographic and climatic conditions, close proximity to NCR, excellent road and rail connectivity with neighboring states, proactive government, quality education infrastructure, huge potential for power generation, unmatched tourism potential and peaceful and secure environment provide ample opportunity for the sector to prosper within the state.

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