Industrial Engineering Letters
ISSN 2224-6096 (Paper) ISSN 2225-0581 (online)
Vol.5, No.1, 2015

Amelioration in Retailing in India and GCC Region

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Introduction

Organized retailing is now one of the most discussed issues globally. Every weekend, there is an advertisement of opening up of a big retail mall. It is another fact that retail sector may be one of the largest job providing sector in near future. Retailing in India and GCC countries is one of the pillars of their economy and accounts for 14 to 15 percent of its GDP in India.Retail industry has thrived in the GCC region over the last several years largely due to increasing purchasing power, growing expatriate population, changing lifestyle and an expanding tourism & hospitality industry. Implementation of governments' progressive policy agenda and increasing private sector contribution to the overall economic growth has made the Gulf one of the widely pursued retail destinations in the world. The industry grew despite political uncertainty in some countries within the region and a global economic deceleration, reaching a market size of US$ 186.7 billion. Its fundamental structure remained broadly unchanged, with the region's two largest economies, Saudi Arabia and the UAE, primarily fuelling the sector's growth[1].

Objectives of the Study

- The understand the growth of retail marketing and analyze the changing retail scenario in India and GCC countries in respect to the Global environment.
- To study the growth of retailing sector in any specific region.
- The challenges before organized retail and ways to overcome it.

Research Methodology

Data Collection: All data have been collected from secondary sources. As this research is an explorative type, research design is very flexible. There is no such statistical design in this study.

Growth of Indian Retail sector and retail in GCC Region

As the corporates - the Piramals, the Tatas, the Rahejas, ITC, S. Kumar's, RPG Enterprises, and mega retailers-Crosswords, Shopper's Stop, and Pantaloons race to revolutionize the retailing sector, retail as an industry in India is coming alive. India in 1997 allowed foreign direct investment (FDI) in cash and carry wholesale. Then, it required government approval. The approval requirement was relaxed, and automatic permission was granted in 2006. Between 2000 to 2010, Indian retail attracted about $1.8 billion in foreign direct investment, representing a very small 1.5% of total investment flow into India.[2] places India 6th on a global retail development index. The country has the highest per capita outlets in the world - 5.5 outlets per 1000 population. Around 7% of the population in India is engaged in retailing, as compared to 20% in the USA.[3] One report estimated that in 2011 Indian retail market has generated sales of about $470 billion a year, of which a miniscule $27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a 25% share. A 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year, revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers. The Economist forecasts that Indian retail will nearly double in economic value, expanding by about $400 billion by 2020.The projected increase alone is equivalent to the current retail market size of France.In 2011, food accounted for 70% of Indian retail, but was under-represented by organized retail. A.T. Kearney estimates India's organized retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% to 30% per year. These data correspond to retail prospects prior to November announcement of the retail reform. The Indian market offers endless possibilities for investors.[4]

The factors responsible for the development of the retail sector in India can be broadly summarized as follows:-

- Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes.
- Looking at income classification the National Council of Applied Economic Research (NCAER) classified approximately 50% of the Indian population as low income in 1994-95; this is expected to decline to 17.8% by in future.
- Liberalization of the Indian economy which has led to the opening up of the market for consumer

goods has helped the MNC brands like Kellogs, Unilever, Nestle, etc. to make significant inroads into the vast consumer market by offering a wide range of choices to the Indian consumers .

- Shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc.

Referring to the demographics of the Middle East and Africa region, the region comprised of 24 countries extended over 14 million square km (Sudhakar, 2008). The North African countries of the MENA comprised of Algeria, Egypt, Libya, Morocco and Tunisia. While the countries of Iran, Iraq, Jordan, Israel, Lebanon, Palestinian Territory (referring to Arab populations living in Gaza and the West Bank), Syria, Turkey and Yemen formed the Western Asia component; and the countries such as Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates, of the Arabian Peninsula formed the Gulf Cooperation Council. The retail sector in the GCC and wider Middle Easter countries perceived tremendous growth over last few years. The successful execution of government policies and increased involvement of the private sector to GDP growth resulted Middle East into one of the world's most pursued retail location. The growing importance of the Middle East in the retail sector could be attributed to its revenue generation potential particularly for retailers seeking new diversification opportunities. Factors that have propelled the Middle East as a core retail market includes:

- Revolution in the market trends
- Speedy economic progress
- Potency of crude oil prices
- Mounting purchasing ability
- Juvenile and well off demographic
- Growing consumer confidence is fusing the region's retail.

The UAE Retail Market

Total sales in the UAE, the GCC's most advanced retail market, registered a growth of 7.1% to reach US$ 50.1 billion in 2012 [5]. The country is the primary center of retail activities in the Gulf, leading to its retail industry having developed into an important component of the overall business activity. Retail sales, as a percentage of GDP in the UAE, has hovered in the range of low- to mid-teens in the last five years.

A stable political environment amidst large scale unrest in certain other parts of the Middle East has reinforced the country's image as a modern and secure tourist destination. Over the last few years, the composition of retailing in terms of food and non-food sales has remained largely the same with food sales accounting for around 41%-42% of the overall industry. A high per capita disposable income of an average UAE citizen has meant that people have higher spending capacity for discretionary items. This coupled with a thriving tourism industry explains why the UAE has a larger share of non-food products in its overall retail universe. Market demand for consumer products in the UAE was estimated at around US$ 65.5 billion in 2014. After experiencing weakness in 2009 due to the global economic crisis and Dubai's debt concerns, demand recovered strongly thereafter. However, it has been observed that a large section of the UAE's consumers have lately turned value-conscious. Electrical appliance, housewares and household audio & video equipment have been the fastest growing product categories in the market over the last five years.

The Saudi Arabian Retail Market

Although not as structurally advanced as in the UAE, the retail industry in Saudi Arabia, GCC's most populous country, is larger in value. The kingdom's retail sales expanded at a healthy rate of 14.6% US$ 83.3 billion in 2011, driven by elevated levels of consumer confidence and government spending. Saudi Arabia's favorable demographic attributes make it one of the youngest and fastest expanding consumer groups in the world. The retail industry continues to benefit from the high oil-driven revenue flows.

Saudi Arabia's topography, which makes it prone to hot climate has favored development of air-conditioned shopping malls rather than high-street retailing. A largely young population profile and a strong female consumer base make non-food products such as apparel, cosmetics and consumer electronics amongst the highest selling products. Restrictions on socializing and public sources of entertainment also drive demand for the latest electronic devices. A strong market for consumer goods mainly centered in urban areas, alongside a large population and a relatively low overall urbanization rate, have led to Saudi Arabia's retail industry being split almost equally between non-food and food sales. However, growth in sales of food products has marginally outpaced that of non-food products over the last few years.

Despite a larger retail sector compared to the UAE, market demand for consumer goods in Saudi Arabia was estimated at less than 50% of that in the UAE. This can be attributed to lower disposable income, higher share of food products in overall personal expenditure, and a relatively less developed retail landscape. Saudi Arabia's consumer goods market was valued at US$ 31.1 billion in 2011.[6] However, unlike the UAE, consumer goods demand in the kingdom has grown consistently over the last five years. Factors such as higher revenues derived from the hydrocarbon sector and a relatively underpenetrated market have aided steady expansion of Saudi Arabia's consumer goods segment.

The Qatari Retail Market

Qatar's retail industry is primarily reliant on imports of consumer products from the MENA and other regions due to undeveloped indigenous manufacturing capabilities. A large proportion of expatriates and an affluent local population make Qatar a very attractive market, especially for fashion retailers. Many international brands have established their footprints in the country through partnerships with regional and local companies who have a better understanding of the market and consumer trends. The industry landscape is characterized by shopping malls due to the hot weather conditions, as is the case for most of its other GCC counterparts. While some traditional souks still exist, most have been refurbished with modern amenities but at the same time have retained a few traditional flavors. Most of the Qatar's retail activities are concentrated in Doha, which has around eight modern shopping malls. However, the state of the industry in Qatar may change over the next few years with the government's impetus on infrastructure and tourism development as the country plays host to the FIFA World Cup in 2022 and has bid to hold the Olympic Games in 2020. The size of trade, restaurants, and hotels sector at current prices expanded 10.4% to US$ 9.8 billion in 2011 [7]. After witnessing fairly volatile but positive growth for a few years, the industry has settled to a growth of around 8%-10% in the last two years. Qatar's economy has exhibited strong resilience to the global crisis and socio-political unrest in some parts of the MENA. The country, currently the largest producer of liquefied natural gas in the world, has maintained robust fiscal and current account surpluses. Factors such as high personal income, low unemployment, large public spending, sustained demand for energy resources, and sound fundamentals have largely insulated the Qatari economy from external problems and enabled it to maintain a positive growth momentum. Apart from consumer spending and leisure tourism, business tourism has also benefitted the trade, restaurants, and hotels sector.

The Kuwaiti Retail Market

Kuwait's dependence on the oil and gas industry has left other sectors like retail and tourism largely underdeveloped. However, the country sets itself apart from some other retail markets in the GCC due to the immense growth potential that it offers. Modern retail concepts are only recently gaining popularity among Kuwait's mostly urbanized population with high spending capacity. Although the retail landscape consists of large shopping malls and hypermarkets, the industry is currently undersupplied in terms of modern retail space and the presence of international retailers. There are around eight shopping malls operational in Kuwait, a majority of which are located in Kuwait City with approximately 0.6 million of completed GLA in 2011[8].

The size of wholesale and retail trade in Kuwait was provisionally estimated at US$ 4.8 billion in 2011 representing 3.0% of the GDP at current market prices. The economy has consistently maintained budget surpluses, which have been driven by large inflow of petrodollars. This has enabled the government to provide social and health benefits to the local population, in turn having a positive effect on.

disposable incomes of consumers. However, Kuwait's retail industry remains susceptible to the volatility in oil and gas prices in recent years. In 2009, wholesale and retail trade measured in US$ terms contracted 5.8%. While global slowdown hampered the industry's growth during 2008-2009, the market has since recovered to a higher growth phase owing to stability in oil prices and sustained demand.

The Bahraini Retail Market

Unlike some of its other counterparts within the GCC, Bahrain is not a large oil-exporting country, but is more a financial hub. This is one of the major reasons why the country's economy is exposed to global financial risks and unable to significantly capitalize on oil prices. The retail industry in Bahrain is among the smallest in the GCC given the country's sparse population. It is closely linked to the health of the tourism sector, and a significant portion of the overall retail sales is contributed by the non-food segment. Prolonged political tensions in the kingdom are currently a cause for concern as it has significantly hampered tourist inflow.

Completed GLA stood at around 0.7 million in 2011. Intense competition, increase in the number of small neighborhood shopping centers, and political unrest in certain areas has impacted occupancy rates and rentals of some malls[9].

The size of trade in Bahrain was US$ 1.2 billion in 2011,for 4.1% of GDP at current prices . After a stellar performance in 2010, the industry registered a decline of 1.0% in 2011 due to political unrest in the country.

The Omani Retail Market

Oman featured in A.T Kearney's Global Retail Development Index for the first time in 2012 in which it was ranked eighth . Despite being thinly populated and with its people not being as well-off as in many other GCC countries, the progressive nature of the retail industry underpins strong prospects for retailers in the country. A fast-evolving economy with strong infrastructure development, surging purchasing power, growing influx of expatriates and visitors, and increasing adoption of modern forms make the Omani retail market highly attractive for international retailers seeking a first-mover advantage. Oman was placed above its larger GCC counterparts, Kuwait and Saudi Arabia, due to lower country risk and longer-term growth potential. However, it is surprising that rapidly progressing Qatar did not even find a mention among the top 30 retail markets[10].

The Global Retail industry-An overview

Retail has played a major role world over in increasing productivity across a wide range of consumer goods and services .The impact can be best seen in countries like U.S.A., U.K., Mexico, Thailand and more recently China. Economies of countries like Singapore, Malaysia, Hong Kong, Sri Lanka and Dubai are also heavily assisted by the retail sector. Retail is the second-largest industry in the United States both in number of establishments and number of employees. It is also one of the largest worldwide. The retail industry employs more than 22 million Americans and generates more than $3 trillion in retail sale annually. Retailing is a U.S. $7 trillion sector. Wal-Mart is the world's largest retailer. Already the world's largest employer with over 1million associates, Wal-Mart displaced oil giant Exxon Mobil as the world's largest company when it posted $219 billion in sales for fiscal 2001. Wal-Mart has become the most successful retail brand in the world due its ability to leverage size, market clout, and efficiency to create market dominance. Wal-Mart heads Fortune magazine list of top 500 companies in the world. Forbes Annual List of Billionaires has the largest number (45/497) from the retail business.[11]

GLOBAL RETAIL

	1999	**2002**	**2005**
Total Retail (US$ Billion)	**150**	**180**	**225**
Organized Retail (US $ Billion)	**1.1**	**3.3**	**7**
% Share of Organized retail	**0.7**	**1.8**	**3.2**

Source: (**CSO, MGI Study**)

Top Retailers Worldwide

Rank	Retailer	Home Country
1	Wal-Mart Stores, Inc.	U.S.A.
2	Carrefour Group	France
3	The Kroger Co.	U.S.A.
4	The Home Depot, Inc.	U.S.A.
5	Metro	Germany

Source: August, 2011. The Wall Street Journal.

Challenges Before Organized Retail

Retailing as an industry has still a long way to go. To become a truly flourishing industry, retailing needs to cross the following hurdles:-

- Automatic approval is not allowed for foreign investment in retail.
- Regulations restricting real estate purchases, and cumbersome local laws.
- Taxation, which favors small retail businesses.
- Absence of developed supply chain and integrated IT management.
- Lack of trained work force.
- Low skill level for retailing management.
- Intrinsic complexity of retailing - rapid price changes, constant threat of product.
- Obsolescence and low margins.

Government restrictions

Organized retailing is yet to get an industry status. The consequence is quite obvious. 100% Foreign Direct Investment (FDI) is not permitted in retailing in India. Ownership of retail chains is allowed only to the extent of 49%. The Food World chain is one such venture, with 'an ownership pattern of 51:49 between RPG and Dairy Farm International, Hong Kong. Foreign players can enter the wholesale sector, in the cash and carry format. The Metro chain has recently entered the country as a ‘cash and carry’ outlet. A branch has been opened in Bangalore and a second would be opened very soon in the same city. The fear that the small-scale retailers will be displaced is delaying the FDI approvals. On the other hand, without the FDI, the sector is deprived of access to foreign technologies that is imperative for faster growth. The Government has allowed FDI in direct marketing, but has reservations about extending it to the retail sector. Retailing is a ‘technology intensive’ industry. Under the liberalized regime of the WTO the 'Protected nature' of an industry may do more harm than good In the short-run the Government may succeed in protecting the domestic industry, but in the long run we would be losing too many opportunities and technological innovations. This in addition would also block any attempt by the domestic industry to become competitive internationally. A survey by Data monitor reported that majority of Middle East consumers curtailed their discretionary expenses and were nowhere near demanding luxurious goods**.** (Alpen Capital, 2010) It was assumed that self-sufficient, independent working women tend to consume more; but in some areas of Saudi Arabia, much more restrictions were alleged on women-- Women were debarred from walking in public places without a male guardian; despite having permission to drive in other Gulf regions, they were outlawed from driving in Saudi Arabia. Moreover, they were dismayed from working, implying more male assistants in local malls. These socio-cultural disparities were likely to pressurize the growth of retail sector in the kingdom

Lack of a uniform tax

The country requires a uniform tax system for the organized retailing. The lack of this stands as an obstruction to the setting up of a truly national chain. The present chains, in spite of claiming to be national chains are restricted co certain regions of the country. Players are confined to state barriers. Since retailing is essentially a business of supplying commodities to locations far from production units, a differential tax system in different states is surely turning to be a hindrance to faster development of this Industry. A central tax system becomes more imperative in a country like India where, the regional disparity in production of commodities is high.

Lack of adequate infrastructure

Players are forced to set up their own infrastructure, as there are few independent logistics solution providers. Entrepreneurs to invest in infrastructure development for different stages of the supply chain are also limited.

Dominance of the unorganized sector

The unorganized sector has dominance over the organized sector, especially because of the low investment needs. In India, organized retailing is only 2% of total retailing of worth US$ 180 billion. This is playing at multiple levels. For instance, the reason for low number of discount stores in India is an effect of the dominance of the unorganized sector. The manufacturers have high bargaining power in the pricing of products as a result of this small scale of operation of retailers. The lobbying by the unorganized sector is also the main reason for the Government of India's restrictions on 100% FDI in retailing in the country. In GCC region traditionally the retail trade was dominated by small family-run businesses or regionally targeted stores.

Low operational size

The number of retail outlets in India is more than the number of outlets in most of the other countries; small size retail outlets dominate the Indian scene. 96% of the outlets are lesser than 500 sq ft. The retail chains of India are also smaller than those in the developed countries. For instance, the superstore food chain, Food World is having only 52 outlets whereas 'Carrefour- Promodes' has 8800 stores in 26 countries. The volume of sales in Indian retailing is very low, which is only $180 billion. Even the largest players have a turnover of only US $ 140 million, which is very small by the global standards. India with second largest population in the World and a fast growing economy has huge untapped potential of organized retailing, which is not given its due weightage by the government.

Labour employment problems

Organized retailing is a 24 X 7 active business. However, this is much restricted currently in because of the labor rules and regulation. The sector is unable to employ retail staff on contract basis. This makes it difficult to efficiently manage employee schedules especially for 365-day operations. The industry has to take special clearance for extended working hours and even seven days working from the Labor department.

Government Initiatives for Improvement of the Sector

Apart from allowing FDI into the industry, Government should consider providing incentives and amending labour laws etc. Shortage and high cost of real estate, tenancy legislation and high property tax etc. are the another areas to be concentrated by the Government. Government should relax such laws and make available property at reasonable prices. Government should introduce a Single Window System at the local Government level to clear the multiple numbers of licenses and complex regulations. Government should also introduce uniform taxation all over the country to relax the laws that are restricting the inter-state flow of goods.

Data Analysis

The different challenges faced by organized retailers have some implications and probable way to solve the problem. These implications have been analyzed in this following table

Factors	Description	Implications
Barriers to FDI	FDI not permitted in pure retailing. Franchisee arrangement allowed.	Absence of global players. Limited exposure to the best practices.
Structural Impediments	Lack of urbanization Poor transport infrastructure. Consumers' habit of buying fresh food.	Lack of awareness of consumers. Restricted retail growth.
High cost of Real Estate.	Pro tenant rent laws. Lack of clear ownership titles, high stamp duty.	Difficult to find good real estate in terms of location and size.
Supply chain bottlenecks	Distribution, logistic constrain.	Limited product range.
Multiple legislations	Stringent labor laws, multiple licenses	Added cost and complexity in distribution.
Customer Preference	Local consumption habit cultural Issues	Increases cost of sourcing, stocking and planning.
Availability of talent	Highly educated classes don't take retailing as a career. Lack of training	Lack of trained personnel.
Manufacturers' Backlash	No increase in margins	Manufacturers don't pass intermediary margin to retailer.

Conclusion

The retailers in India have to learn both the art and science of retailing by closely following how retailers in other parts of the world are organizing, managing, and coping up with new challenges in an ever- changing marketplace. There are some challenges faced by Indian organized retailers are controllable, some are beyond their control. Problems of manufacturers' backlash, supply chain customer preferences, non availability of talents may be managed efficiently. But only government can eradicate barriers to FDI, issues of legislation and infrastructural bottleneck.

Recommendation

Manufacturers' issues, distributor and logistic challenges may be solved though efficient supply chain management process. Different customer preferences and choice can be met through effective customer service. Non-availability of trained labor may be solved through forming a relationship with different academic institutes. But to solve the issues like barriers to FDI, multiple legislation etc., and organized retailers may jointly plea to the Government.

Scope, use and importance of the study

This study may help retail managers, researchers, students to understand Indian and GCC retail sector better. It may usher further interest to research scholars to do further research on it.

Limitation

This research is based on secondary data. Primary data has not been collected. This research has been prepared with time constrains.

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